

JPRS-CEA-86-067

5 JUNE 1986

China Report

ECONOMIC AFFAIRS

FBIS FOREIGN BROADCAST INFORMATION SERVICE

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

5 JUNE 1986

CHINA REPORT ECONOMIC AFFAIRS

CONTENTS

PEOPLE'S REPUBLIC OF CHINA

NATIONAL POLICY AND ISSUES

Ways To Carry Out Economic Reform in 1986 Outlined (Gao Shangquan; LIAOWANG, No 1, 6 Jan 86)	1
Economic Reforms, Speed of Economic Development (Liu Hongru; ZHONGGUO JINRONG, No 11, 4 Nov 85)	10

ECONOMIC DEVELOPMENT ZONES

Ningbo Plans Call for 'Second Shanghai' (XINHUA, 24 Apr 86)	18
Qingdao Increases Production Volume of Exports (XINHUA, 15 May 86)	19

ECONOMIC PLANNING

Briefs Development Plans Reported	20
--	----

AGGREGATE ECONOMIC DATA

Beijing Shows Economic, Social Development Results (Nie Lisheng; CHINA DAILY, 10 May 86)	21
Minority Nationality Areas Attain Targets (XINHUA, 6 May 86)	23

Briefs		
Liaoning Economic Achievements		25
ECONOMIC MANAGEMENT		
Xue Muqiao Discusses Commodity Exchange		
(WUZI GUANLI, No 1, 20 Jan 86)		26
Yinchuan, Ningxia Commercial Outlets Multiply in 1985		
(Cao Shuchun, et al.; NINGXIA RIBAO, 10 Dec 86)		30
CITIC Chairman Urges Improved Economic Results		
(XINHUA, 9 May 86)		32
New Changes in Production Structure Outlined		
(Yue Bing; LIAOWANG OVERSEAS EDITION, No 14, 7 Apr 86)		33
Briefs		
Researchers Help Yunnan Factories		37
New Management Helps Port		37
FINANCE AND BANKING		
Transregional Foreign Exchange Regulation Expanded		
(WEN WEI PO, 9 Apr 86)		38
China's State Budget Management System		
(Hu Luoting; CAIZHENG, No 3, 8 Mar 86)		40
Announcements of Anhui Branch of People's Bank		
(Yang Changzeng; ANHUI RIBAO, 4 Apr 86)		46
Effects of Macroeconomic Control on Money Market Discussed		
(Yu Ruixiang; ZHONGGUO JINRONG, No 12, 4 Dec 85)		48
Financial Reform in Northwest Discussed		
(Wang Runqing; JINGJIXUE ZHOUBAO, 9 Mar 86)		53
Briefs		
Urban Savings Deposits		56
INDUSTRY		
Shanghai Area Shipyards Report Output, Quality Gains		
(CHUANBO SHIJIE, No 39, 3 Oct 86)		57
Briefs		
State Expanding Shipbuilding Centers		60
Mongol Wind-Driven Generators		60

SMALL-SCALE ENTERPRISES

Tianjin Township Enterprise Product Standardization Pushed (Zhang Xiaojian; ZHONGGUO XIANGZHEN QIYE BAO, 14 Dec 85) ..	61
Sichuan Township, Town Enterprise 1985 Output Up 48 Percent (Shen Xiangju, He Zhengkuan; SICHUAN RIBAO, 16 Dec 86)	63
Sichuan S&T Personnel Aid Township, Town Enterprises (Shen Zhuangxin, Deng Zhong; WEN HUI BAO, 3 Mar 86)	65

CONSTRUCTION

Briefs	
Container Docks Planned	67

FOREIGN TRADE AND INVESTMENT

Anniversary of Sino-Polish Shipping Company Marked (XINHUA, 17 Apr 86)	68
Briefs	
CSSR Chamber of Commerce Official	69
Poland Vehicle Exports	69
Chemical Delegation in SFRY	69

LABOR AND WAGES

Problems of Wage, Labor Race Discussed (Hu Xiaoyi; BAN YUE TAN, No 5, 10 Mar 85)	70
Labor Service Company Helps Workers in Shekou (XINHUA, 7 May 86)	73
Overseas RENMIN RIBAO Reports on Xian Technicians (XINHUA, 16 May 86)	75
Briefs	
Retirees Total Over 16 Million	76

TRANSPORTATION

Needed Railroad Electrical Equipment Improvements Outlined (TIEDAO TONGXIN XINHAO, No 1, Jan 86)	77
Railway Improvement Plans Laid Out for Next 5 Years (Wang Ruozhu; LIAOWANG OVERSEAS EDITION, No 12, 24 Mar 86)	88
Briefs	
Wuhan Airlines Operations	92
International Flights to Urumqi	92

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

USSR Urges Enterprises To Change Methods (XINHUA, 28 Apr 86)	93
Polish State Enterprise Declared Bankrupt (XINHUA, 4 Apr 86)	94
Briefs XINHUA Notes PRAVDA Item	95

PUBLICATIONS

Briefs First National Gazeteer	96
---	----

HONG KONG

Joint Stock Exchange Officially Opens (Gu Wen; CHING-CHI TAO-PAO, No 12, 31 Mar 86)	97
Small, Medium-Size Banks Forced To Make Changes (Lei Jingbin; TA KUNG PAO, 29 Mar 86)	101
Government Takes Action To Save Troubled Banks (MING PO, 2 Apr 86)	104

/7310

NATIONAL POLICY AND ISSUES

WAYS TO CARRY OUT ECONOMIC REFORM IN 1986 OUTLINED

Beijing LIAOWANG [OUTLOOK] in Chinese No 1, 6 Jan 86 pp 16-19

[Article by Gao Shangquan [7559 1424 0356], deputy director of the State Restructuring of the Economic System Commission: "About the Reform of the Economic System in 1986"]

[Text] In 1985 China's reform of the economic system took a brave step and made important fresh progress. The goal to regain control of the macroeconomy set forth at the beginning of 1985 has been basically achieved. The reform has accelerated economic growth, market prosperity, steady growth of state revenue, and continuous improvement of living standards. Nineteen eighty-six is the first year of the "Seventh 5-year Plan." How to carry out the reform of the economic system this year is a major issue of common concern and interest.

Recently I have conducted some investigation and research in several provinces and municipalities. Judged from the actual conditions of all areas, in 1986 we should put the reform before everything else and accelerate the planned development of socialist commodity economy. Concrete reform principles may be summarized in the following few words: "Assimilate, consolidate, supplement, improve, upgrade, and develop." In other words, we should assimilate and consolidate existing achievements and reform measures which are correct. With regard to those reform measures in which little experience has been accumulated and which lack detailed procedures and have more problems, we should carefully review them, keep what is good, discard what is bad, adopt supplementary measures to make them complete, and revise them to make them perfect. As for those reform measures which are conducive to macrocontrol, the improvement of enterprises' and social economic results, and the balance of aggregate supply and demand, we should explore, innovate, upgrade, and develop them in a vigorous but safe manner so as to make the reform more efficient and expedite the steady growth of the economy. Based on these three ideas, I put forward the following 12 suggestions and opinions for the reform in 1986.

Assimilate and Consolidate

The main task is to implement conscientiously the "10 Regulations on the Expansion of Rights" and the "14 Provisional Regulations" of the State Council, safeguard the rights and interests gained by enterprises through the

reform, continue to increase the vitality of enterprises, especially large and medium-sized, and further develop various forms of horizontal economic links.

1. Consolidate various levels and categories of management companies in accordance with the principle of "delegating decision-making power to factories and serving the grassroots."

Most factory directors we contacted reflected that the phenomenon that management companies at national, provincial, and municipal levels abuse their administrative powers to intercept and encroach upon the rights of enterprises is still very serious and that it has become a major obstacle to enterprise revitalization, a loophole for stealing state revenue and transferring large amounts of budgetary funds to extra-budgetary funds, and a major cause for the loss of control over consumption funds.

The clean-up campaign currently carried out in all areas is aimed mainly at those brief case companies while management companies are still growing in number. Take those Hangzhou-based companies under the administration of ministries and provinces for example. The number increased from 188 at the end of 1984 to 234 in 1985. How do we consolidate such companies? First of all, we must coordinate companies of all categories at all levels, starting with those under the administration of central departments, bureaus, sections, and offices, draw a clear-cut line between the functions of administrative departments, and companies and sever the economic links between the two. Second, companies of all categories must abide by the principle of "equality, mutual benefit, democratic consultation, voluntary participation, and freedom of withdrawal." Chongqing City readjusted, reformed, and reorganized, according to the suggestions of subordinate enterprises, those management companies which had been established since 1982 according to the stuffing their pockets method, enabling them to "delegate decision-making power to factories and render service to grassroots units," become real enterprises, and establish horizontal links with other factories and enterprises to benefit both sides. Third, we may explore and develop various forms of companies such as management-service, production-management, technical service, and the combination of various forms and ownership systems. Fourth, we must hold on to the policy when consolidating companies, avoid "uniformity," and ensure the effect of "killing two birds with one stone."

2. Earnestly reduce enterprises' burdens and increase enterprises' ability to transform and develop themselves.

The average profit retention rate of all enterprises in China increased through the second step of the tax-for-profit reform, but the following price increase of raw materials and various charges and fees increased the burden on enterprises. One of the problems is that the sharp increase in the prices of raw materials made it difficult for enterprises to bear the heavy burden resulting from high costs and low sales. The Hangzhou City Toothpaste Plant is a model enterprise of the light industry and its economic targets are on top of the list among all departments of the same trade in the nation. Since 1985, its profits have been reduced by 5.13 million yuan due to increases in the prices of major raw materials, tax rates and various charges, and the levying of urban development tax. Although such measures as conservation,

substitution, and expansion of sales by enterprises have been employed, the enterprise could only offset half of the reduction and recorded a 56 percent decline in annual profits, thus affecting the income of staff members and workers. The second problem is that in 1985, enterprises had to take care of substantial increases in price subsidies for non-staple foodstuff, allowances for the education of staff members and workers, and pension. The third problem is that some administrative organs charge illegal fees for regular administrative services or collect additional "service charges" on top of regular fees. The fourth problem is the phenomenon that enterprises are forced to "pool funds," share expenses, sponsor projects, and do commercials, and this is very serious. In some areas, local public security departments even charge factories for setting up police stations in large and medium-sized enterprises, hiring police, and purchasing uniforms, guns, and other police equipment.

With regard to the above problems, on the one hand, we should solve them through price readjustment and the reduction and exemption of regulatory taxes; on the other hand, we should adopt measures to reduce unfair burdens on enterprises. Auditing, financial, and tax departments should be organized to reexamine and verify all items of charges and fees and resolutely eliminate those which should be eliminated. Administrative organs should not be allowed to charge enterprises without authorization. It is necessary to stipulate in unequivocal terms that collecting service charges for public service is illegal. Misuse of enterprises' staff and unauthorized apportionment of expenses and other fees should be checked.

3. Consolidate the achievements in the reform of small state-run enterprises

Over the past year or so, some small state-run enterprises, especially small commercial enterprises, have been invigorated through "transformation (into collective ownership), transfer (to collective management), and rent (contract or rent to individual managers)." They are now developing into economic entities that practice independent accounting, assume sole responsibility for their own profits and losses, and make their own decisions in management. This has aroused the enthusiasm of staff members and workers and substantially increased economic results and the efficiency of social service. In 1985, reformed small enterprises in Hangzhou and Jiaxing cities both showed an increase of over 35 percent in tax payment as compared to the corresponding period of the previous year. However, comrades in all areas now express that due to policy changes, the momentum of reform in small enterprises has been reduced sharply. The main problem is that not enough consideration has been given to such enterprises in the formulation of tax policies or other reform measures.

Some comrades of local governments pointed out that enterprises owned by the state and run by collectives are different in economic nature from those small enterprises which are transferred directly to collective ownership; therefore they must be so distinguished in policies. Some comrades suggested that "uniformity" be avoided in the levying of bonus tax; small enterprises dealing with cartering, service, repairing, and vegetable businesses be given more

lenient treatment in regard to the cut-off point; the staff members and workers of small enterprises be given over-time pay; and rented or leased small enterprises be exempted from bonus taxes.

Supplement and Perfect

Since the beginning of 1985, in view of certain unstable elements in China's economy, the central government has enhanced macroeconomic control and employed such economic levers as taxes, credits, prices, and wages. This is totally necessary and has scored achievements. But, it is necessary to prevent "uniformity" and avoid two possible dangers: 1) The application of old methods is liable to lead us back to the overcentralized old system; and 2) general means of control can control state-owned enterprises but not collectively-owned and individually-owned enterprises; they can control production but not consumption, thus enlarging the gap between aggregate supply and demand. Therefore, it is necessary to supplement and perfect all systems. The first main step is to establish a mechanism to make comprehensive use of economic levers and exercise indirect control over the macroeconomy, give correct guidance regarding investment orientation and enterprises' behavior, and bring about the balanced and coordinated development of the economy.

4. Further improve financial and tax systems

First of all, we must make sure that all taxes that can help bring the scale of capital construction under control and promote fair competition among enterprises are collected without fail. For instance, product taxes are an important source of revenue for the state, but some provinces and municipalities, in order to protect their local enterprises, have reduced or exempted product taxes for some products in excessive supply and encouraged enterprises to enter competition through illegal means. This in fact is protecting products of high costs and low quality.

Second, measures that can help increase the economic results of enterprises and the society as a whole should be implemented as soon as possible even if it means less taxes for the state. The Hangzhou Rubber Plant is one of the units with better economic results in the same industry throughout the country. In the past few years, it has increased production and practiced economy and its workers have been paid 3 yuan a month as conservation bonus. In 1985, Zhejiang's financial and tax departments required that this enterprise retain conservation bonuses according to its average consumption level of the past 3 years. As a result, the bonus was reduced to 0.2 yuan while enterprises of high consumption were allowed to retain more bonuses. In this way, it is very difficult to arouse the enthusiasm of staff members and workers. Therefore, we must work out as soon as possible some appropriate measures regarding the practice of conservation bonuses.

Third, we should begin as soon as possible to levy personal income taxes to replace bonus taxes. This can control the growth of consumption funds, help promote fair competition between enterprises, and control the excessively high income of individual business managers.

Fourth, the reduction and exemption of regulatory taxes should be planned in such a way to reflect the industrial policy laid out to develop key industries.

Fifth, we suggest that the separate tax system be carried out on a trial basis in a few cities in 1986. Through this separate tax system, we should correctly handle the interests and rights of the state, provinces, and municipalities, practice decentralized management, and gradually enhance and perfect the system of tax supervision.

5. Correctly employ the means of credit, open up capital markets, and exercise indirect control over the macroeconomy

To exercise indirect control, it is necessary to give correct play to the role of monetary and currency policies. At present, enterprises are slow in responding to the adjustment of interest rates. Since state-run enterprises include their interest in their cost of production, they are willing to borrow money no matter how high the interest rate is.

To bring the overall scale under control, first of all we should strictly control the number of new projects and sort out projects under construction. Second, we should avoid "uniformity" and mixing reward with punishment in the control of overall scale. Third, under the condition of tight money supply, it is still more necessary to open up money markets, accelerate turnover, and make better use of limited funds. Vigorous efforts should be made to develop horizontal capital circulation between regions and between specialized banks, adopt various credit instruments, reform the means of payment, develop multi-level money markets, and control the growth of high-interest credit among the people. Fourth, it is necessary to increase the efficiency of loans and speed up the recovery of investment. The key to this issue is that leaders at all levels should avoid using administrative means to issue orders so as to protect the decision-making power of banks.

6. Carefully control the prices of non-staple foodstuff to stabilize markets and reassure the people

Beginning in April 1985, all localities have gradually decontrolled the prices of non-staple foodstuffs and granted a proper amount of price subsidies. After price decontrol, commodity prices have gone up substantially, resulting in quite a few complaints from the masses.

In order to control commodity prices, stabilize markets, and reassure the people, we suggest that the following measures be adopted: 1) Strengthen price and market control. Implementing the principle of "macroeconomic control and microeconomic flexibility," Shanghai Municipality continues to subsidize popular vegetables of dependable quality. Hangzhou and Jiaxing cities have adopted such methods as setting price ceilings and allowing units of the same trade to negotiate prices. Chongqing City is in the process of formulating a lowest price protection policy. 2) Adopt measures to consolidate and develop vegetable production bases and households specialized in raising hogs so as to guarantee absolute supply. 3) Further implement measures to supplement agriculture and vegetable production with industry in

rural areas. 4) Establish vegetable wholesale markets with state-run commercial units playing the dominant role. 5) Correctly handle the relations between the interests of producers, dealers, and consumers.

7. Explore new ways to reform the wage system of enterprises

Following the reforms of government organs, cadres, and other establishments, enterprises' wage reform became a prominent contradiction. The method of linking wage bill to economic results, which has been practiced on a trial basis since 1984, is correct. However, the problem is how to set scientific and reasonable targets for economic results. It is inappropriate to publicize this method before the problem can be solved.

To explore new ways to reform enterprises' wage systems, Shanghai is planning to experiment with the method of linking the wage bill to tax payment, profit delivery to the state, cost of production, and quality in several enterprises in 1986. Chongqing City is planning to experiment with the "target cost distribution method" in some enterprises in 1986. This method is to encourage enterprises to increase the wage content of production cost by reducing consumption on the prerequisite of guaranteed product quality and increased tax payment and profit delivery to the state. On condition that the total amount of consumption funds is under control, enterprises should be given the decision-making power to choose their wage systems and explore multiple distribution systems. In the meantime, attention should be paid to preventing new breaches in the expansion of consumption funds.

Upgrade and Develop

It is necessary to carry out reforms in a firm, cautious, and reliable manner. Pilot cities in particular should make new strides to push forward all-round reforms.

8. Vigorously create conditions to explore and develop capital goods markets

Along with the changes in the form of distribution and allocation for capital goods and especially since the gradual price decontrol of above-plan capital goods was initiated at the beginning of 1986, two forms of prices--planned and market prices--have appeared for major capital goods. At present, the disparity between the two prices is enormous. This applies mainly to those products whose prices have long been divorced from their value and whose supply falls far short of their demand. This dual price system can not only give impetus to enterprises producing capital goods but also impose pressure on general processing enterprises, enabling them to increase production, practice economy, and readjust industrial lineup and investment orientation. In these two areas enterprises have made great efforts in the past year or so and proved that the dual price system is of positive significance and it serves as a bridge linking the old to the new system. But some enterprises are unable to cover excessive price disparity, resulting in price increases or causing all units to vie with each other in dealing with capital goods and seek profits through speculation.

To provide a relaxed environment for the development of capital goods markets in 1986, we should first take a further step to reduce the scale of capital construction and control the orientation of loans. Second, the main task now is to explore and develop steel product markets. The key is to gradually increase the proportion of goods entering the market in an effort to stabilize prices. In 1985, Shijiazhuang experimented with the method of selling planned and above-plan steel products at the same market price with price disparity returned to enterprises according to planned targets. This is an invention. It can help enterprises dealing with capital goods consider all resources, both planned and above-plan, as a whole, participate in market regulation and exercise their role in stabilizing prices. In addition, it can help smooth out the price relation of steel products by reducing the disparity between the two prices. We may continue to explore similar methods in various cities. Third, we should establish special steel product markets. Transactions of steel products of all kinds should be strictly forbidden outside the markets, but certain flexibility should be allowed in prices. Fourth, the state should issue special licenses for dealing with steel products, define business scope, and gradually establish unified and open steel product markets.

9. Mete out special policies for export enterprises to increase their ability to earn foreign exchange

According to our surveys, the key to increasing export potential is to mete out policies for enterprises. First of all, under the guidance of unified state policies, qualified enterprises should be granted as soon as possible the right to make direct contacts with foreign countries. It is necessary to establish in the guiding principle the concept that entrepreneurs must face international markets.

Second, policies should be formulated to encourage exports. Currently, many enterprises find that the more products they export, the less profits they make. Under the circumstance that domestic sales are better than exports, most foreign trade enterprises need domestic sales to supplement exports. Shanghai Municipality is considering establishing an export reward fund while demanding that enterprises, instead of foreign trade departments, be exempted from export product taxes.

Third, foreign exchange sharing quotas should be fixed for enterprises which have engaged in exports and earned foreign exchange and, according to the amount of foreign exchange earned from exports, some industries should be selected to implement the dynamic profit retention system on a trial basis. The practice of importing raw materials at low prices and selling them to enterprises after adding high service charges must be changed.

Fourth, industrial policies should be employed correctly to speed up the renovation and transformation of foreign trade enterprises.

10. Exercise decentralized control, develop the role of central cities, and ensure both macroeconomic control and microeconomic flexibility

Shanghai and Hangzhou cities have established a system for different departments to hold joint business meetings and economic lever coordination

meetings which have made a positive effect on macroeconomic control. However, they feel that because cities' authority to use economic levers is too limited and they lack regulatory means, economic levers still cannot give much leverage in reality. Practicing decentralized control, policy-making, and management is a major pressing issue in the reform. On the one hand, with regard to macroeconomic control, central cities should exercise their role as a "transformer" or "second relay" and, in view of their local realities, work out the details and local versions of the general principle and policy of state macroeconomic control, thus exercising macroeconomic control in the microeconomy. On the other hand, since cities have direct contacts with enterprises and markets, they have faster information feedbacks and it takes them less time to make policy decisions. Decentralized control and management with each level assuming its own responsibility can reduce the burden and risk on the part of the central government in making policy decisions and is favorable to arousing the enthusiasm of all fields and carrying out the reform in a vigorous and safe manner.

Main reforms to be carried out in this field are: 1) Plan to practice decentralized management. 2) Properly expand the authority to readjust taxes. Cities should have the authority to readjust the regulatory taxes of enterprises on condition that they guarantee the fulfillment of revenue delivery task and the total amount of tax payment. Provinces may give cities the authority to grant tax exemption and reduction or write off outstanding tax payment. Cities may gradually begin levying local taxes such as property taxes and vehicle and vessel license taxes. Pilot cities may determine temporary tax categories in view of problems in their economic development. Chongqing City initiated the "temporary business tax" in 1985 and used it to levy taxes on upstarts in the field of circulation, achieving satisfactory results. 3) Properly expand the authority to set prices. Except for those commodities whose prices and other non-commodity charges are set in a unified manner by the state or provinces, commodity prices and non-commodity charge standards should be controlled and readjusted in a unified manner by cities. The authority to examine and approve floating prices for high-quality products may be exercised by cities within the limit prescribed by the state. In addition, with regard to the fields of credit fund control, wage control and foreign trade, the role of cities should also be developed in accordance with the principle of decentralized control.

11. Explore new systems for industrial control

Along with the simplification of administration and the delegating of decision-making powers to lower levels, government organs need to take a further step to change their functions and eliminate barriers between central and local authorities. Judged from the findings of our surveys, we may strengthen the exploration of industrial control in the following two respects: 1) Specialized industry control bureaus under city governments should switch from departmental control to the control of industry as a whole. 2) In view of the problem that some departments are in charge of too many industries, we should establish and perfect associations for each industry and enable them to become a bridge and link between the government and enterprises.

We suggest that the possibility of experimenting with the control of industry as a whole in departments with foundations such as machine-building and building industries should be further explored in several cities in 1986. During the experiment, attention should be paid to the following: 1) The control of industry as a whole should not change the affiliation of enterprises without authorization. Special attention should be paid to properly handling the relations between enterprises of different ownership. 2) Industrial control departments should cut their economic links with enterprises. 3) Industrial associations must be established in a cautious and proper manner after experimentation and exploration. We should not rush headlong into it and consider associations as new organs to replace the functions of corporations. Resolute efforts should be made to prevent turning "corporate fever" into "association fever."

12. Do a good job in basic work and make full preparation for making important steps in the reform of 1987

In order make important steps in the reform of 1987, we must do a good job in the feasibility study of the following reform plans and basic work: 1) Study and draw up important reform plans such as plans for financial reform and the development of money markets; study and draw up plans for rent reform and housing commercialization on the basis of experimenting with housing commercialization in several cities; further reform the plans of circulation systems to adapt to the new situation of a booming commodity economy in urban and rural areas; implement preliminary social security reform plans and conscientiously carry out comprehensive and supplementary reforms on a trial basis in selective units. 2) Pay special attention to basic work such as conducting appraisals and classification of assets, resources, and land and propose that this work be considered an important content of industrial survey. Other basic work includes establishing and perfecting financial accounts, accelerating the training of accountants and auditors, examining the credentials of accounting personnel, enforcing strict accounting disciplines, and establishing accounting offices on a trial basis in cities where conditions permit. 3) Strengthen ideological and political propaganda and education during the reform period and deepen the understanding of cadres and the masses for the need and difficulty of reforms. 4) Enhance the economic legal system and supervision and do a good job in supplementing and coordinating reforms so as to ensure smooth progress for reform of the economic system.

12302

CSO: 4006/918

NATIONAL POLICY AND ISSUES

ECONOMIC REFORMS, SPEED OF ECONOMIC DEVELOPMENT

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] 100 Chinese No 11, 4 Nov 85
pp 2-5

[Article by Liu Hongru [0491 7703 0320]: "Economic Reform and Speed of Economic Development; Study and Learn from National CPC Congress Documents"]

[Text] The recently convened National CPC Congress has approved the "Central Committee's Proposals for the Seventh 5-Year Plan for National Economic and Social Development" which affirms the guiding philosophy, goals, strategy and important policy measures underlying the economic tasks for the period of the Seventh 5-Year Plan. It also lays out concrete goals, requirements and practical steps that need to be taken in bringing to fruition the decisions of the 3d Plenum of the 11th CPC Central Committee regarding the economic structure. In the construction of a socialist state, the experiences since the 3d Plenum have been a step forward toward realizing a socialism with Chinese characteristics. We must meld the construction of a socialist state and the reforms, study conscientiously and gradually realize these goals. In this article, the economic reforms and the speed of development will be discussed; I will draw from my own learning experiences.

I. Reform Has Accelerated Economic Growth

Since 1979, China's economy and society have undergone important changes, and the trends are a step in the right direction. It can now be said with certainty that the economic and financial circumstances have basically taken a turn for the better. The main indicators are: 1) A stable foundation, a rapid growth of the agricultural sector, self-sufficiency in food, a surplus in cotton, and a steady growth in the energy supply after a period of no growth. 2) The appearance of proportion and coordination between agriculture, light and heavy industry, and between spending and savings. Markets are supplied more abundantly and daily life has seen a marked improvement. 3) A basic balance. The tide has turned from falling to steadily rising government revenues; receipts and expenditures are basically balanced as are foreign exchange receipts and expenditures. Necessary reserves are being maintained, credit is growing quickly, and the money supply is adequate to meet the demands of economic growth. These three points add up to one thing, and that is that China's economy has begun to see continuous, steady and coordinated growth.

Comrade Deng Xiaoping has pointed out; "The 7 years since the 3 Plenum of the 11th CPC Central Committee has been the greatest, most crucial era since the People's Republic was founded. In truth it did not come easy. We accomplished two important tasks: First we rooted out the opposition and second we restructured the entire system." Most fundamental was rooting out the opposition which entailed redirecting the party's focus toward establishing a modern socialism and upholding a foundation consisting of four fundamental principles; it also meant concentrating on the development of socialist production and the rectification of "leftist" errors. Without this, today's situation would not be so good. The overall restructuring of the economy and the development of production capabilities has fostered deep changes in the economy, society, manner of work, and the social atmosphere.

That the economic reforms have propelled many aspects of economic development has been clearly manifested: In rural areas the creation of the output-related system of responsibility has actively rechanneled the productivity of vast numbers of peasants. Since 1981, the annual average rate of growth in agricultural production has been 10 percent. Since the 3d Plenum of the 11th CPC Central Committee, the reforms have focused on urban areas. Because of the appearance of a mixed economy, economic diversification, a variety of circulation channels, increased self-management rights, gradual reform of the price structure, the financial system, and tax collection as well as the formation of technological and resource markets and the diligent advancement of the open door policy, the urban and rural economies have been invigorated and the growth rate has accelerated. During the Sixth 5-Year Plan, the average annual growth rate in gross output value of industry and agriculture exceeded 10 percent, already higher than the 7.2 percent average annual growth rate required to quadruple output by the end of the century.

II. Excessively High Growth Rate Are Detrimental to Economic Reform

Economic growth rates are restricted by objective conditions. If the rate is too high, steady and coordinated growth is sacrificed; thus the condition and environment best suited to restructuring the economy are lost. At bottom, the reforms exist for the construction of the economy and, in the era that lies ahead, this construction schedule depends on the implementation of beneficial reforms. If overly speedy development is pursued, all aspects of the economy will become hamstrung and it will be difficult for the reforms to advance smoothly. Why is this so?

First, the restructuring of the economy requires coordination and a steady pace of growth as a foundation. If the rate is too high, coordination is lost. In 1984, gross industrial products increased 14 percent over the previous year and up to July of this year, the growth rate was 22.8 percent higher than the same period last year. This kind of speed cannot be maintained, for it would be difficult to supply enough energy, raw materials and transportation to meet the needs of such a high rate. Comrade Chen Yun is right when he says that a proportional, planned pace of advancement is the best speed. Otherwise, panic will ensue and loss of

control will unavoidably reappear, resulting in the opposite--sluggishness. "Haste makes waste." If control and coordination of the economy are lost, positive reform measures will be difficult to achieve, well nigh leading us back to where we started.

Second, the restructuring of the economy requires the gradual establishment of an indirect system of controls, the gradual perfection of a market system, the application of crucial economic and legal devices, and utilization of market mechanisms to control and adjust the economy. To achieve these requirements, economic relationships must be clarified and smoothed out so that the various means of adjustment obtain precise results. To apply economic means of adjustment is really to influence results, which will affect the profits and losses of all enterprises units and individual enterprises. On the one hand, enterprises really need stimulation to become relatively independent producers and managers; on the other hand, pressure is necessary, most notably market pressure. If an enterprise's goods are not up to par in quality, design, color, and variety, or if it uses resources inefficiently, causing high prices, the products will not sell. The enterprise and the individual will hence suffer the consequences. Under these circumstances, market mechanisms and economic forces will promptly come into play. If the economy is growing too fast, demand will inflate, supplies will become tight, and a sellers market will come into being. In this kind of abnormal situation, anything can sell and any kind of business can earn money, causing market mechanisms to lose their vitality and economic devices to become ineffective.

Third, the restructuring of the economy requires a stable financial situation, stable markets and tranquility in domestic life. And to implement all these improvements, a stable political atmosphere must be maintained. If the economy grows too quickly, the tendency is for credit to expand greatly. Above all, if fixed capital investment grows wildly, not only will it result in shortages of both building materials and mechanical equipment, but it will also result in an inflation in consumption funds. Meanwhile, in the short run this sort of investment cannot provide commodities for society at large, which then forces banks to increase the supply of money, which in turn increases pressure on markets. If the amount of money in circulation increases, goods will become scarce, production will increase haphazardly, causing quality to fall, and eventually a glut will occur. Goods would become wasted products and money in circulation would gain great purchasing power. The result could be inflation, rising prices and impediment to the reforms. And if it affected everyday life, causing people to become disheartened, it would be even more difficult to implement the reform.

Thus, it is imperative to maintain a suitable rate of growth. Excessively speedy growth cannot be pursued for its own sake, nor can national capabilities be ignored while blindly expanding the scale of development. We must avoid blindly heading in this direction and must avoid an economic panic. According to the proposals of the Central Committee, during the Seventh 5-Year Plan The GVIAO is set to grow at an annual rate of 7 percent,

which is hardly a low rate. To bring this about, the Seventh 5-Year Plan will be divided into two parts. During the first 2 years, emphasis will be placed on controlling aggregate demand, slowing speedy growth rates, and solving the problem of overly large-scale fixed-asset investments and wild growth in consumption funds. The scale of investment for 1985 will be maintained. By and large, only minor adjustments will be made. In the last 3 years of the Seventh 5-Year Plan, there will be an appropriate increase of investment in construction. The principle is firmly established, yet the mere recognition of the problem does not mean a genuine solution, for measures are still inadequate and uncontrollable dangers are still in existence. Some comrades cannot get the concept of "the more growth, the better" out of their minds. At the same time, reducing waste and improving product quality to increase economic gains is quite difficult to attain. After all, it is so easy to rely on an expanded scale of production to obtain higher output value. Consequently, it will be difficult to solve the problem of excessively fast growth.

III. Reforms Must Have Priority

During the Seventh 5-Year Plan, we must take note of three important tasks: 1) to create an excellent environment for the reforms by avoiding overly fast growth in the economy; 2) to strengthen priority projects and technical transformation to pave the way for continued economic growth in the 1990's; 3) to continue improving daily life for the people. The latter two responsibilities require a definite rate of growth, because sluggish growth is also unacceptable. On the surface this is a contradiction, but in reality it is consistent, for only when economic benefits and the general welfare are satisfactory can a growth rate be considered perfect. This is precisely the purpose of the reforms and it is also a necessary condition for the reforms. As Comrade Xiaoping has said: If within the next 5 years the foundation for the reform is set, the economy will be able to grow steadily and in a coordinated fashion so that by the end of the century the 12 major goals will be well within our grasp."

How can the contradictions of the Seventh 5-Year Plan be solved to ensure suitable levels of growth? The means is in the reforms.

A suitable growth rate is one in tune with the general welfare and one that truly comes to grips with the quality versus volume and speed versus results relationships. The problem of resource waste, inferior quality, and low economic gains must be altered so that all resources are efficiently utilized, investment is more productive, exports are increased, and the people's needs are satisfied. The effort to increase economic gains and the active strengthening of exports are two means of creating the right environment for the reforms during the Seventh 5-Year Plan. We also must make future growth a source of lasting strength as well as solve the important contradictions in daily life. In accomplishing these two things, we must institute various policies and measures, the most important being the proper implementation of the reforms. It is especially important to invigorate large and medium-sized enterprises, make it easier for government

to grant rights, appropriately reduce and adjust taxes, reduce planned duties and directions, further increase self-management rights and competitive pressure on enterprises, etc. Enterprises must be inspired from both within and without to increase economic benefits. There must be a further development of commodity markets as they can function as economic levers and competitive mechanisms, to separate the wheat from the chaff. Reforms in the price structure, in tax collection and in the financial system should serve to strengthen market mechanisms and economic levers, and will result in greater economic gains for enterprises and society at large.

A suitable growth rate is one that allows for proportional growth. The conditions required for a stable, proportional, and well coordinated economy are a basic balance between aggregate supply and demand that will help keep accumulation and consumption funds in the right proportion, and an integrated balance between public finances, credit, goods, and foreign exchange. To bring this about, we must promote economic reform and the nation's planned commodity economy must be adjusted to perfection so that macroeconomic controls are effective and the microeconomy is stimulated. A stimulated microeconomy is the foundation for macroeconomic control, precisely because stimulation necessitates control. If effective macroeconomic controls are lacking, then the more the economy is stimulated, the more chaotic it will become. In the future, direct state control over enterprises must be gradually reduced and a system of indirect control must be perfected. Legal and economic means must be employed to control and adjust movement. However, the scope, degree, and pace of this reduction in direct control over the microeconomy should adapt to and complement the strengthening of indirect state control. It is worth noting that implementing controls is an important aspect of the reforms, and it should be gradually perfected throughout the reforms. There is no returning to the days of direct control through primarily administrative means.

Controlling the scale of fixed-asset investment is the most direct component in establishing a suitable growth rate, for it prevents the inflation of demand brought on by "surging investment." This is the core of macroeconomic control, but it is a difficult problem. For many years purely administrative means have failed to solve this problem, and now as part of the reforms, effective, but indirect solutions are being sought. Besides maintaining outside of a certain planned scale of control it is important to employ economic devices, especially in the realm of the money supply, for increased control and guidance.

If there is a rush to obtain capital for basic construction, authorized banks must reduce the flow of capital and other loans. Stock and bond issuances need to be put under better management and direction. Also, restrictions on tax collection can be increased. Drastic methods of control may be employed to institute this necessary series of reforms because they are so necessary.

In order to set up macroeconomic controls, appropriate reform measures in line with the Central Committee "proposals" must be instituted. In the first 2 years of the Seventh 5-Year Plan, the emphasis of the reforms will revolve around the stabilization of the economy and the perfecting of an indirect system of macroeconomic controls. The last 3 years will revolve around the need to expand socialist commodity markets, improve indirect controls, establish a price structure for production resources, restructure the pricing and managerial systems, improve the tax system, reform the financial structure, and provide better external conditions for enterprises.

The reforms are only one of the three great duties of the Seventh 5-Year Plan, but it is the most significant one. The relevance of the reforms is not limited to the present. They are a crucial foundation for the establishment of a stable, expanding economy during the rest of the century and the first half of the next century. Without the reforms, there cannot be stable economic growth in the future.

IV. Restructuring Financial System Has Important Place on Agenda

If we want to strengthen macroeconomic controls and stimulate the microeconomy, it is necessary to restructure the financial system. The three main aspects of the Central Committee's concrete "proposals" regarding the establishment of a new style socialist economic structure are: the invigoration of medium-sized and large enterprises; the development of planned commodity markets and the gradual perfection of a market structure; the substitution of indirect for direct national control in the management of enterprises. Revolving around these three aspects is a comprehensive, well-planned structure comprised of price, public finance, banking, and wage systems that together form a complete market establishment. There also should be mechanisms to merge macroeconomic control with microeconomic stimulation. As can be seen, the heart of the reforms is determining how to establish and perfect a system of adjustments for a planned, socialist commodity economy. A regulated banking system is an important component in a regulated economy. The reform of the banking system is connected to both the stimulation of the microeconomy and to macroeconomic controls. The invigoration of enterprises, the perfection of the market systems, and the establishment of a system of indirect controls all require suitably tailored reforms in the banking system. And if we want to manage the relationship between growth rates and economic results, banking methods must be utilized.

Regarding reforms in the banking structure, the Central Committee "proposals" laid out a simple, precise outline. It reflects several important relationships: the relationship between banking and the national economy clearly expresses the important role of banks. There are two main aspects to this role: the first is the raising of funds and the efficient application of funds to suitable projects; the second is to direct the flow of money, regulate both the economic structure and aggregate demand to realize the needs of national policies and strategies. The role of banks must be tailored to the needs of economic development and they must be able to restrain a speeding economy that is not well coordinated. The two aspects mentioned above must be viewed as an organic whole that cannot stand alone as separate components.

In regard to the relationship between the Central Bank and various other departments and financial institutions, the People's Bank of China is by law consigned the means to effectuate the duties and spirit of the Central Bank. The People's Bank is definitely the most important institution for making macroeconomic adjustments. Its adjustment duties and goals are: to control inflation and to stimulate coordinated economic growth and a rational economic structure as well as to adjust aggregate demand and the economic structure. For this purpose, the independence and prestige of the People's Bank of China must be strengthened. It must not become a mere appendage of various government departments, because it must independently execute its professional prerogatives. The means of adjustment at its disposal include integrated credit planning, financial policies, the management of foreign exchange and credit, interest rates, exchange rates, reserve fund and various other economic and legal devices. What makes unequivocal the People's Bank of China's role as the Central Bank's connection with specialized banks and other financial institutions is its leadership duties, for it has the right of supervision, examination, and the power to adopt compulsory measures to control their credit activities.

As to the internal and external workings of specialized banks, the People's Bank can determine and maintain the direction of entrepreneurial reform, carry out the separation of government from enterprise management, and set up the responsibility system. It can also approve the limits of suitable banking services as well as give impetus to and apply pressure on banks to work hard on upgrading management. But because it is involved in a wide range of affairs and it lacks experience, steps must be implemented with care.

Regarding the relationship of banks and enterprises, banks have the unequivocal right, based on national plans and credit policies, to decide whether or not to extend loans and to determine how much to lend enterprises. These are self-management rights of banks. Banks do not have the obligation to "guarantee" funds needed by enterprises. At the same time, however, banks must bear the risks of the loans they extend.

Concerning the relationship between banks and government, it is expected that all levels of government will supervise and support banks in their efforts to carry out the nation's financial policies, but it must also guarantee that there is no encroachment upon the legal rights of banks. Banks have the right of self-management, so units and individuals cannot compel a bank to extend loans in defiance of policies.

Indirect financing (through banking institutions) rather than direct financing (through enterprises and individuals) will be the principle form of financing. Direct financing will also be allowed, but as a supplement. The "proposals" suggest that in managing and directing, the People's Bank of China should employ a variety of financial methods to actively develop the lateral flow of funds and promote the gradual formation of a money market.

Reforming the financial structure is a complex matter involving the overall situation; therefore, it must proceed with caution and prudence. Among the "proposals" are many important points that necessitate research into theoretical and practical problems. We must diligently study, draw from years of experience and proceed one step at a time.

13030/12781

CSO: 4006/411

ECONOMIC DEVELOPMENT ZONES

NINGBO PLANS CALL FOR 'SECOND SHANGHAI'

OW242020 Beijing XINHUA in English 1444 GMT 24 Apr 86

[Text] Beijing, 24 April (XINHUA) --Major port expansion schemes have been started at Beilun and Zhoushan ports in the eastern coastal city of Ningbo, Zhejiang Province, today's PEOPLE'S DAILY reported.

Two electricity power plants and an airport are being built. Construction of a computer-controlled telephone exchange service and other telecommunications, industrial, tourist and cultural facilities are all being speeded up.

The newly-built Ningbo University is expected to enroll students later this year, the paper said.

Planners aim to build Ningbo into China's "second Shanghai"--the country's largest port.

Investment for the city's major projects during the Seventh 5-Year Plan (1986-1990) will exceed the total figure of the previous 30 years. The central and local authorities have decided to spend 5.2 billion yuan. If all planned projects are finalized, the investment will exceed 13 billion yuan, 60 percent of which will be in foreign funds.

Officials of the State Council and local authorities and Sir Yue-kong Pao, chairman of the Hong Kong Worldwide [?Shipping] Group, discussed on Wednesday in Beijing a program for Ningbo's construction over the next 5 years.

The emphasis will be on developing deep-water wharfs and land transport facilities to lay a solid foundation for building Ningbo into an important industrial city and economic center.

/12232

CSO: 4020/322

ECONOMIC DEVELOPMENT ZONES

QINGDAO INCREASES PRODUCTION VOLUME OF EXPORTS

OW150955 Beijing XINHUA in English 0728 GMT 15 May 86

[Text] Qingdao, 15 May (XINHUA)--The volume to purchase export commodities in Qingdao came to more than 384 million yuan in the first 4 months of this year, 50.2 percent higher than the same period of 1985 or hitting an all-time high.

The volume of exports totaled 992 million yuan in 1985, with an increase of 11.7 percent of 1984. About 400 varieties of exports made in Qingdao, one of 14 coastal cities opening to the outside world in 1984, included food and oil, textiles, light industrial products, chemical products, handicrafts and soft drinks which found their market in 120 countries and regions in the world.

One of the most welcomed drinks was beer made in Qingdao Beer Brewery, providing about 100 million liters annually. About 47 million liters of beer were exported, thus earning 16 million U.S. dollars in 1985. And the volume of beer export came to 8.7 million U.S. dollars since last January.

In order to make fuller use of its favorable conditions and potential, and improve the quality of exports, the city government declared more than 30 special factories to produce for the international market. And the priority will be given to them.

Meanwhile, 6 counties of the city also set up 32 export production and processing centers which provided export products worth about 120 million yuan in the first 4 months of this year.

/12232

CSO: 4020/320

ECONOMIC PLANNING

BRIEFS

DEVELOPMENT PLANS REPORTED--Fuzhou, 14 May (XINHUA)--Fujian Province in east China will focus its development efforts on transport and energy power during the Seven Five-Year Plan period (1986-90). Speaking at the Fifth Session of the Sixth Provincial People's Congress which opened today, Governor Hu Ping said that two hydroelectric power stations and two thermal power plants would be built, which would add an installed capacity of more than 1.35 million kW. Then the annual electricity output will reach 11.4 billion kWh in 1990, an increase of 49 percent over 1984, Hu Ping said. During this period, the annual coal mining capacity will increase by 1.6 million tons, the governor said. On the development of communications, he said that a new electric railway of 514 km and 11 deepwater berths will be established. At the same time the construction of a section of a road linking Fujian with Jiangxi and Hunan provinces will be completed. He said that over the past five years the province has imported basic facilities to improve its transport and the power industry. As a result, harbor handling capacity of 2.14 million tons, coal mining capacity of 560,000 tons and installed power capacity of 406,000 kW have been added to the province. [Text] [Beijing XINHUA in English 1349 GMT 14 May 86 OW] /12858

CSO: 4020/324

AGGREGATE ECONOMIC DATA

BEIJING SHOWS ECONOMIC, SOCIAL DEVELOPMENT RESULTS

HK100510 Beijing CHINA DAILY in English 10 May 86 p 1

[By staff reporter Nie Lisheng]

[Text] Beijing municipality registered all-round success in its economic and social development over the Sixth 5-Year Plan period (1981 to 1985), it was announced here yesterday.

Total product income in increased by nearly 60 percent to 19.4 billion yuan, the annual averaging 2,040 yuan per capita, second only to Shanghai of all 29 municipalities, provinces and autonomous regions in the country.

Inflation-adjusted figures show that average workers' wages rose by 34.4 percent to 1,343 yuan, while suburban farmers' income more than doubled to 775 yuan in 1985, both figures marking the largest increase of all five plan periods since 1953.

At a press conference held yesterday to brief reporters on next week's Fifth Session of the Eighth Municipal People's Congress, Director Xu Yiliang of the city's Statistical Bureau announced that total industrial and agricultural output value had jumped by 51.5 percent to 34.96 billion yuan in the past five years at an annual growth rate of 8.7 percent, more than double the 4.3 percent rate originally set.

The city's total road mileage reached 2,979 kilometres by the end of 1985 after more than 500 kilometres of highway were built or extended, while the number of buses or trolleybuses increased by 1,480 to 4,593 with a total annual haulage of 3.34 billion passengers, 40 percent more than in 1980.

During the same period, the city nearly quadrupled the number of its taxis to 12,000, operated by more than 200 taxi companies, while 359 mini-buses have also been put into operation since 1984, carrying more than 3 million people.

Six large-scale fly-overs, seven road bridges and 14 pedestrian subways have also been constructed to ease traffic congestion at major crossroads, said Xu, who revealed that the municipal government spent a total of 2.92 billion yuan on public works construction in 1981-85, nearly double the figure for the previous 5-year period.

By the end of 1985, Xu said, 1.023 million households had gas supplies while water pipelines now served every building or courtyard. Central heating coverage has increased from 5.64 million square metres in 1980 to 9.16 million square metres in 1985.

An even larger investment of 5.17 million yuan was channelled into housing construction during the past 5 years, when the city constructed nearly 22.7 million square metres of floor space.

Unemployment dropped from 1.6 percent in 1980 to nearly zero in 1985, when the city employed a total workforce of 3.8 million, 558,000 more than 5 years ago.

Tourism and joint venture businesses have been flourishing in the city, Xu said. Last year, Beijing received a record of 937,000 international tourists and had a total tourist income of 940 million yuan in foreign exchange. The number of overseas hotels nearly tripled to 63, with 16,000 rooms and 32,000 beds.

/12232

CSO: 4020/321

AGGREGATE ECONOMIC DATA

MINORITY NATIONALITY AREAS ATTAIN TARGETS

OWO62042 Beijing XINHUA in English 1109 GMT 6 May 86

[Text] Beijing, 6 May (XINHUA)--People living in China's minority nationality areas have fulfilled all the targets set in the Sixth 5-Year Plan (1981-85), an official of China's Nationalities Affairs Commission announced here today.

In the past 5 years, he added, the economies of these regions have been developing steadily.

In 1985, total industrial and agricultural output value of these areas reached 79 billion yuan--14.6 percent more than in the previous year or 58.6 percent more than in 1980.

During the Sixth 5-Year Plan period, the average annual increase of the industrial and agricultural output value of the areas was 9.7 percent, as against 6.6 percent in the preceding 28 years.

The agricultural output value of the autonomous areas last year was 35.1 billion yuan, an increase of 8.1 percent over 1984 or 45.2 percent more than in 1980. The average annual growth rate was 7.7 percent in 1981-85 as against 3.5 percent in the previous 28 years.

In 1985, the number of industrial enterprises in these areas had grown to 40,000, with their output value (including that of village-run industries) totalling 43.9 billion yuan--20 percent more than in 1984.

At the same time, the living standards of peasants and herdsmen living in these areas improved steadily, and the average increase rate of their actual [word indistinct] of urban residents was anywhere between 5 percent and 8 percent.

China has a total of 55 minority nationalities, totalling some 67 million people, or about 6.7 percent of the country's population. Minority nationality autonomous areas account for 60 percent of the country's total land.

Last year, the total industrial and agricultural output value of the five autonomous regions of Inner Mongolia, Xinjiang, Guangxi, Ningxia and Tibet was 54.2 billion yuan, and industrial output value, 32.8 billion--9.2 percent and 19.3 percent more than the previous year respectively.

Of the five autonomous regions, the Xinjiang Uygur and Ningxia Hui Autonomous Regions fulfilled their main targets set in the Sixth 5-Year Plan, 1 year ahead of schedule, and the industrial and agricultural output value of Xinjiang ranked 14th for several years running among the 29 provinces, municipalities and autonomous regions on the Chinese mainland.

/12232

CSO: 4020/321

AGGREGATE ECONOMIC DATA

BRIEFS

LIAONING ECONOMIC ACHIEVEMENTS--Under the leadership of the party and government, the people of all nationalities in Liaoning Province vigorously implemented the principle of invigorating the domestic economy and opening to the outside world, persisted in putting reforms in the first place, defeated rare natural disaster at one blow, and enabled the national economy of Liaoning province to witness an excellent situation of sustained, stable, healthy, and balanced growth. The provincial statistics bureau released on 9 February a bulletin on Liaoning's national economic and social development in 1985. It revealed the following figures: In 1985, Liaoning's gross value of social products came to 102.45 billion yuan, an increase of 13.6 percent over 1984; its gross value of industrial and agricultural output amounted to 80.03 billion yuan, an increase of 13.4 percent; its national income was 40.09 billion yuan, an increase of 9.9 percent; its total agricultural output value was 14.06 billion yuan, an increase of 9.9 percent; and its total industrial output value was 65.72 billion yuan, an increase of 14 percent. Of the fixed-asset investment of state-owned units, capital construction investment accounted for 5.61 billion yuan, an increase of 44.7 percent over 1984. The annual local revenue came to 7.93 billion yuan, an increase of 1.05 billion yuan or 17 percent over 1984. [Text] [Shenyang LIAONING RIBAO in Chinese 9 Feb 86 p 1] 12302

CSO: 4006/919

ECONOMIC MANAGEMENT

XUE MUQIAO DISCUSSES COMMODITY EXCHANGE

Beijing WUZI GUANLI [MATERIAL MANAGEMENT] in Chinese No 1, 20 Jan 86 pp 5-7

[Article by Xue Muqiao [5641 2550 2890], as part of his new book, "Zhongguo Wuzi Maoyi Zhongxin" [China's Material Trade Centers] to be published by the China Materials Publishing Company: "Promote Commodity Exchange, Expand the Role of the Market"]

[Text] China's socialist economy is a planned commodity economy that centers around the system of public ownership of the means of production. Since it is a commodity economy, commodity exchange must be conducted on the market. Old China was a country in which the commodity economy was not fully developed, and market exchange was in an early stage of development. Our creation, after the establishment of New China, of the planned management system limited instead of promoted commodity exchange and reduced instead of expanded the scope of the market. For a long time we believed that the means of production were not commodities, and therefore replaced commodity production with planned allocations, and therefore replaced commodity exchange with planned allocations. There was no market for the exchange of capital goods. For an important portion of consumer goods, state requisitions, centralized purchasing and planned distribution took the place of a capital goods market. This was in violation of the objective laws of economic development and stifled the entire national economy.

After the 3d Plenum of the 11th CPC Central Committee in 1978 we admitted that both capital and consumer goods were commodities, and that it was necessary to develop a market for commodity exchange. We eliminated part of the planned management system that had been restricting the commodity market, reformed the system of commerce, replaced monopolized administration with diversified management, reduced the scope of planned distribution and expanded market exchange, stimulating the economy as a result. The 3d Plenum of the 12th Central Committee declared even more clearly that China's socialist economy was a planned commodity economy, and that it would be necessary to further promote commodity exchange and expand the role of the market. Capital goods were to be exchanged on the market using negotiated prices outside of that portion to be allocated according to the plan. The centralized requisition and purchase of agricultural products and planned distribution (limited distribution) of agricultural products were to be gradually eliminated and restrictions on the market and prices were to be ended in order to implement a system of market regulation under the leadership and with the participation of state-run

commerce. The bureaucratic distribution system of daily necessities involving three levels of wholesale stations was replaced by a diversified system involving the state, collective and individual in which state-run commercial sectors conducted purchasing and sales on commission and the factories sold their own products. The market became even more prosperous than before.

However, due to many years of favoring industry at the expense of commerce, the exchange of industrial and agricultural products between city and countryside and between regions is not sufficiently lively. Unsold products pile up frequently in one location while going out of stock in another. Despite the fact that many peasants and herdsman in regions in the southwest and southeast where there are surpluses of cotton and cotton cloth lack cotton clothing and quilts, problems involved in the purchase and sale of quite a few products are far from being resolved. The development of the commodity production and the expansion of market exchange are issues that urgently need to be addressed in order to develop industrial and agricultural production and improve the people's living standards.

There are still quite a few difficulties involved in the exchange of capital goods. Although negotiated purchases and sales of capital goods are permitted, markets for the exchange of capital goods are not yet widespread and buyers are sent in all directions, while speculative activities involving making huge profit by illegal resale are developing rapidly. There have been newspaper accounts of steel products, still in the same storage facility, being sold and resold 4 or 5 times, drastically driving up prices. Despite steel shortages in recent years that have necessitated the annual import of more than 10 million tons, steel warehouse inventory has not only not been reduced, but is constantly increasing. Many units are competing to purchase steel products not to use in production or construction, but to resell for huge profits. A good way to resolve this problem would be the creation of capital goods exchange markets (they could also be called trading centers), to facilitate direct contacts between the producer and the consumer. When it is easy to purchase raw materials, hoarding by all levels of materials departments and enterprises would not be necessary, which would greatly alleviate shortages of these materials and lower negotiated purchasing and sales prices. Since we recognize that the means of production are commodities, we should create a network of markets for their exchange. Without such a market, it will be impossible to smoothly engage in commodity exchange with low circulation costs. A Japanese friend told me that annual steel output in Japan is around 100 million tons, of which 5 million tons is normally in storage, or the equivalent of approximately 5 percent. In China 40 to 50 percent of all steel inventory output is inventory. All raw materials can be freely purchased at any time in Japan, so most factories do not have more than 1 month's inventory at any one time. Due to the difficulty of obtaining materials in China, we often begin to feel nervous with inventories that could last 5 to 6 months. Therefore, the creation of a market for the exchange of capital goods would be an important method in alleviating shortages of raw materials (especially steel).

Of course, the fundamental reason for shortages in the supply of the means of production is the excessively large scope of capital construction. Therefore the main way to alleviate shortages is to shrink the scope of capital construction and restore the balance between overall supply and demand of the

means of production. The scope of capital construction in China from 1978 to 1980 was too large. Every year nearly 10 million tons of steel were imported, while steel inventories mounted. With the reduction of the scope of capital construction in 1981, less steel was imported and inventories took a marked dip. Clearly the overly large scope of capital construction was the basic cause of the steel shortage. Plus, without a market for the exchange of steel, the piling up of steel products in warehouse intensified the shortage. In 1980 I visited a capital goods market in Shanghai consisting of only a few dilapidated buildings. Many factories had brought detailed inventory lists of their materials piling up in storage to the market to engage in exchange. In this way, needs for some materials that could not be satisfied by applying to the materials bureau were met. At the time I suggested building the dilapidated sheds into a large building, allowing each large factory to rent a room to engage in exchange at the market. Factories that could not lease a room could also be allowed to trade there. The Bureau of Goods and Materials could participate on market trade and win a dominant place for itself taking advantage of its vast forces. A minority of regions are now constructing markets, but they are far from satisfying the needs of capital goods exchange. Some places are currently experimenting with allowing materials sectors to conduct centralized management over negotiated purchasing and selling without allowing direct contact between seller and buyer. This is still the old method of replacing market exchange with distribution and allocation, and it will probably not bring about a fundamental resolution of the problem.

The exchange of consumer goods is a bit better than that of capital goods, but the capacity of the consumer goods market is insufficient to meet the needs of urban and rural residents. As the few department stores in large cities are unbearably crowded, small shops should be built for the convenience of the residents. Middle- and small-sized cities must create vast commercial networks, and increase commodity supply to avoid the problem of everyone crowding into the large cities. Rural market towns had once been centers for commodity exchange between city and countryside. But due to the monopolistic business practices of the Ministry of Commerce and the supply and marketing cooperatives from the 1950's to the 1970's, small private shops were eliminated, but it was impossible to build so many state- and collective-run shops to replace them. As a result, shops in many market towns that had thrived before liberation were turned into residences, while business slowed to a standstill and the residents had to go into the city to purchase commodities they needed. Even though commodity production has increased nearly 100-fold in 30-odd years, there are fewer shops and stores than before. Even in big cities, many smaller shops were turned into residences, which led to bad overcrowding in a few large department stores. Commodity exchange must be expanded at the same time that commodity production is increased. At present there is too much of an imbalance between the two. Of course, not only is commerce unsuited to the needs of commodity production, but so are communications and transportation as well. The CPC Central Committee's call to develop tertiary industry is a strategic principle.

Due to the inability of state-run and collective commerce to satisfy needs, there has been swift development in recent years of individual commerce and peddling. Although this is necessary, independent peddlars cannot be used

to substitute for state- and collective-run shops. State-run commerce (the largest portion of which is locally administered at the city level), should maintain its dominant position on the market. Collective commerce plays a strong role in supporting state-run commerce (and probably holds a dominant position in the countryside), and the self-employed, individual merchant is a necessary complement to it. In capitalist countries, large- and middle-sized stores also dominate the market, leaving a supplementary role for the smaller, individual merchant. In socialist countries socialist state-run and collective stores should occupy an even more dominant position. Small, independent merchants play an important role in stimulating the market and should not be squeezed out, but they are, after all, more difficult to supervise than state-run and collective shops. There are also more instances of deception and more problems involved in managing prices and taxes. Of course, compared to industry, commerce should be a bit more decentralized. It is our guiding principle to develop the state-run, collective and individual simultaneously and allow them to compete. State-run commerce could predominate in the trade of the most important commodities and products in large quantities, while lesser commodities and most of the retail trade could be undertaken by the collective or individual sectors.

After the great development of the commodity market, and in particular the implementation of the policy of developing state-run, collective and individual sectors together, market management must be strengthened. After the establishment of New China, market management was in fairly good shape due to the widespread existence of private industry and commerce. At the time, the Industrial and Commercial Management Bureau had a good deal of authority over market management. After the completion of the transition to socialism, in particular after the beginning of monopolistic practices by the commercial sectors, the management work of the bureau was replaced by the administrative management of the Ministry of Commerce, Bureau of Goods and Materials and the Marketing and Supply Cooperative, greatly reducing the bureau's power. With the overall economic reform and the diversification of commerce, we should expand the bureau's power to manage the market. Strict market management must be exercised over small independent merchants, and the state-run and collective commerce must be supervised as well. While there is cheating in independent commerce (although most private merchants are honest), deception in state-run and collective commerce has not been entirely eliminated either. For example, many cases involving the sale of phony medicine and liquor and other practices harmful to the consumer have occurred in state-run factories and stores. As they are enterprises run by local authorities, local Industrial and Commercial Management Bureaus have a hard time dealing with them. From now on, we should strengthen economic law and improve the legal system so that the bureau and other management organs have the power to intervene in any case involving violation of the law. If an enterprise resists supervision, an appeal can be made to a higher authority. If the higher authority protects the enterprise's illegal activities, an appeal should be made to the courts. Consumers' associations have been set up in many places to assist market management organs in improving their work. If market management organs engage in favoritism and irregularities, the consumers' associations should report and expose such behavior to the relevant higher authorities or seek to curb them via mobilizing public opinion through the media.

12221/12859
CSO: 4006/875

ECONOMIC MANAGEMENT

YINCHUAN, NINGXIA COMMERCIAL OUTLETS MULTIPLY IN 1985

Yinchuan NINGXIA RIBAO in Chinese 10 Dec 85 p 1

[Article by Cao Shuchun [2580 2885 2504], Jia Wenyong [6328 2429 3057] and Jiang Lin [5592 7792]: "Results of Ningxia's Construction of Commercial Network Outlets in the Sixth 5-Year Plan Gratifying; The Masses' Difficulties in Buying, Eating, Housing, and Repair Achieve Preliminary Resolution; 12.5 Commercial Network Outlets for Every 1,000 People in the Yinchuan Urban District, Entering the Front Ranks Nationally"]

[Text] Development of Ningxia's commercial outlet network has made gratifying progress during the Sixth 5-Year Plan. The number of people served by each network outlet dropped from 639 in the Fifth 5-Year Plan to a current 124.

New Developments in state-run commercial outlets: state-run commercial outlets may reach 3,600 by the end of 1985, an increase of 46 percent over the Fifth 5-Year Plan, and an average annual increase of 9.2 percent. In addition to local financial allocations, relevant central government departments have also invested in these newly added network outlets. There has been an increase in minority nationality development funds used in developing the commercial outlet network, with a special investment of 6 million yuan between 1983-1985 to be used in outlet construction in the minority nationality prefectures of Xiji, Haiyuan, and Guyuan, and the counties and cities belonging to Yinnan Prefecture. In strengthening the function of state-run commercial enterprises as principal conduits, these newly added outlets are performing an important role in market regulation.

The swift development of collective and individual commercial network outlets: by the end of November 1985, collective commercial enterprises of all types may reach 2,800, a 42-percent increase over the period of the Fifth 5-Year Plan, and an average yearly increase of 8.4 percent. Individual commercial enterprises, beverage services, and repair enterprises grew even more quickly, with an 11.68-fold increase over the Fifth 5-Year Plan period. These collective and individual commercial outlets are either set up jointly by different units and the community youth they organize or self-run by idle community members and community youth who have raised capital on their own. Management is lively and service thorough. In isolated mountain districts and in some farm villages where transportation is difficult, a group of people have appeared who travel around a string of villages in the countryside and

shoulder their loads of goods to the door. Farmers can buy daily necessities without leaving the village. Market, collective, and individual peddler spots spread out row upon row in the various areas of the great expanse of farm villages on market days. Trade is brisk, presenting a series of prosperous images.

Notable successes of Yinchuan City Commerce Bureau in employing a variety of forms to raise capital for development of outlets: commercial departments in various places have been actively restoring, rebuilding, and expanding some old networks during the Sixth 5-Year Plan; many methods have also been adopted to concentrate community funds for developing commercial network outlets. Yinchuan City is the most noteworthy. From 1984 to 1985, 20 commercial outlets have been opened or are under construction in the Yinchuan City commercial system. There is 1 square meter for every two urban residents. In the construction of these network outlets, privately-raised and community-collected capital accounts for 67 percent of the total investment. By the end of this November there were more than 3,540 state-run, collective, and individual commercial outlets in Yinchuan City (excluding Helan and Yongning counties and their suburbs), an average of up to 12.5 commercial network outlets for every 1,000 people, entering the front ranks nationally.

Coordinated fund-raising utilizing different channels and forms by the state, collectives, and individuals will forcefully accelerate commercial outlet development. Ningxia's outlets might number 33,400 by the end of November, 1985, a 4.4-fold increase over the Fifth 5-Year Plan. The number of people served by each outlet dropped from 639 in the Fifth 5-Year Plan to the current 124. There are 8.05 network outlets per 1,000 persons, in the upper-middle ranks nationally. The masses report that products are abundant, peddler shops many, purchasing easier, and the market much more prosperous than in the past. Ningxia's long-term shortage of commercial outlets has already changed, while purchasing, eating, housing, repairs, and other difficulties have begun to be resolved.

13152/12859

CSO: 4006/579

ECONOMIC MANAGEMENT

CITIC CHAIRMAN URGES IMPROVED ECONOMIC RESULTS

OW091946 Beijing XINHUA in English 1759 GMT 9 May 86

[Text] Beijing, 9 May (XINHUA)--China's enterprises urged today to strengthen their management and improve economic results to make greater contributions to the country.

Rong Yiren, chairman of the China International Trust and Investment Corporation (CITIC), was addressing a financial planning meeting on CITIC-backed joint-venture enterprises. He stressed the importance of enterprises using foreign capital improving their economic performances.

Up to the end of last year, CITIC had helped set up 140 joint ventures, of which 39 were Sino-foreign ventures and 101 were backed by CITIC with foreign capital. These enterprises are involved in textiles, light industries, food, chemicals, mining, metallurgy, electrical equipment, transport, communications, electronics and commerce, and are scattered in more than 20 provinces and cities as well as many foreign countries, including Australia, France, Kuwait, New Zealand, Spain and the United States, and Hong Kong and Macao.

Of these enterprises CITIC has helped to launch, 66 have gone into operation, and by the end of last year had made total profits of 13,800,000 yuan.

The four-day financial planning meeting, which ended today, was attended by representatives from more than 100 enterprises in 24 provinces and cities, and officials from the State Planning Commission, Finance Ministry, Foreign Economic Relations and Trade Ministry and the People's Bank of China.

/12858

CSO: 4020/324

ECONOMIC MANAGEMENT

NEW CHANGES IN PRODUCTION STRUCTURE OUTLINED

Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 14, 7 Apr 86 pp 17-18

[Article by Yue Bing [1471 0393]: "New Changes in China's Production Structure"]

[Text] During the Seventh 5-Year Plan period, China will make a series of major changes. An eye-catching one will be the change in production structure.

Three Major Changes in Agricultural Economy

Further readjusting rural production structure and gradually realizing the specialization, commercialization, and modernization of agricultural economy is one of the primary targets of the "Seventh 5-Year Plan." During the "Sixth 5-Year Plan" period, China successfully readjusted rural production structure. The grain acreage was reduced by over 130 million mu but the total value of agricultural output increased 233 billion yuan or more than 1-fold. The main reason is that as a result of the reform, the labor productivity of the farming industry has increased, a large amount of labor has begun to transfer from farming to non-agricultural production and township and town enterprises have developed greatly. Comparing the total social output value of 1985 with that of 1949, the ratio of industry is up from 25.2 percent to 53.9 percent and that of agriculture is down from 58.5 percent to 27.8 percent, indicating that China has begun to advance toward an industrial society.

Judged from production structure, China's industrial ratio is already close to two thirds of total social output value but agricultural population, which indicates whether a country has finally realized modernization, is still too high not to be alarmed. By the end of 1984, the number of laborers directly engaged in agricultural production in China remained as high as 320 million, accounting for 68.4 percent of total laborers. If China fails to change this situation fundamentally or if it fails to transfer successfully over a half of existing rural labor to other industries, its four modernizations drive will confront great difficulties.

During the "Seventh 5-Year Plan" period, while doing a good job in grain production, China will "actively support township and town enterprises, draw up rational planning for them, give them correct guidance and strengthen their

management." In addition, China will emphatically develop the farm product processing industry and develop before- and after-production services such as the storage, packaging, transport, supply, and marketing of farm products. Where conditions permit, China should, according to actual needs and local conditions, vigorously develop subsidiary industries to supplement major industries and develop export-oriented processing industries. By developing such industries, China should realize the transfer of agricultural labor to non-agricultural labor in rural areas. This is a good way of changing production structure with little investment, quick results, good efficiency, and little shock.

The Rise of New Industries

In October 1983, in view of the "third wave" and the "new technological revolution," which were widely discussed in the developed Western countries, Premier Zhao Ziyang suggested that we pay attention to studying the trend of the new world technological revolution and China's countermeasures. In the past few years, Chinese experts have conducted arduous, painstaking, thorough, and extensive studies around this issue and turned out many valuable research reports and countermeasures. They contend that in order to realize as soon as possible the modernization of production structure in China, equal attention should be paid to the development of traditional and new industries and priority should be given to the technological transformation of traditional industries while doing a good job in the establishment and development of new industries. Because of this, the electronics industry should be considered the leading industry and pillar and back-bone industries such as agriculture, machine-building, and building industries as the second echelon in industrial development. The third echelon consists of basic and weak industries in China's economic development including three major basic industries--energy, transport and communications, and materials--and the tertiary industry such as commodity circulation and service trade. This should be considered the basic framework for the transformation of China's production structure.

Along this train of thought, during the "Seventh 5-Year Plan" period, China should focus on developing microelectronic and information technologies and new materials while strengthening the research and development of such new technologies as biological engineering, space, nuclear, laser, and marine industry, fully developing the functions of old bases and gradually establishing several new industries.

In the meantime, the state will increase investment in major construction projects in the fields of energy and raw materials and increase their ratios in state investment. In the energy industry, efforts should be focused on the development of electric power to strive to bring national power output to 550 billion kwh by 1990, an increase of 35 percent over 1985. In the raw materials industry, great efforts should be made to develop the iron and steel industry, which already is "a sunset industry" in some developed countries. However, proceeding from China's national conditions, the iron and steel industry needs to be further developed. It needs to increase not only output but also the variety of products, improve the quality of products, and increase the ratio of high performance steel products such as alloy steel and low alloy steel in the total output of steel.

Accelerate the Development of the Tertiary Industry

The rise and growth of the tertiary industry is an inevitable trend resulting from the further development of social division of labor and the continuous improvement of labor productivity. It is also an important characteristic of modern economy. For a long period of time, China's tertiary industry has been very backward. By 1984, the output value of the tertiary industry accounted for only 22.1 percent of the total value of domestic output and the number of employees in the tertiary industry accounted for only 14.4 percent of the total number employed. This level is much lower than that of economically developed countries. It is even lower than that of many developing countries. The seriously backward tertiary industry, clogged transport channels, lack of information, and underdeveloped commercial, financial and technological consulting services have created many inconveniences in production and daily life. This is also an important reason for China's poor results in the use of capital and low efficiency in production. Because of this, during and beyond the "Seventh 5-Year Plan" period, the tertiary industry, especially transportation, communications, commercial, and catering services, should be considered the focus of vigorous development. This is an important strategic measure for forming a new production structure and an economic development pattern.

The domestic consumption pattern has changed drastically, setting forth new demands on production. Between 1978 and 1984, the per-capita net income of peasants in China increased 1.6-fold and the average per-capita wage of workers increased nearly 1-fold. Due to the substantial rise in the income level, the trend of the people's consumption has begun to change and consumption has begun to transfer from a stage dominated by necessities to a stage dominated by non-essentials. Plain print and old "three pieces" (wrist watch, bicycle, and sewing machine), which were hot-selling products for several decades, have begun to change from hot-selling to slow-selling products whereas the supply of the new "five pieces" (television set, cassette recorder, washing machine, refrigerator, and camera) falls short of demand. High-grade furniture, fine wool fabrics, high-class carpets, motorcycles, and even small automobiles have also begun to enter the homes of ordinary workers, peasants, and intellectuals. In only a few years, a tendency to switch from low to high class and from quantity to quality has emerged in the structure of demand.

Therefore, from now on, the food, clothing, and durable goods industries will be the focus of the consumer goods industry. They will make great efforts to increase the production of popular-brand, high-quality, and high-grade new products and upgrade and update China's consumer goods industry as soon as possible.

Structural Switch About To Appear

To realize the four modernizations in an all-round way, first of all, production structure must be modernized. Over the past 30 years, China's economic appearance has changed drastically, laying a solid foundation for the qualitative leap of production structure. The general idea of the "Seventh 5-Year Plan" has charted a correct orientation for this leap.

The new China has long relied simply on planning for the arrangement of the production structure of the whole society, resulting in a loss of control and poor management. Some industries or trades which should have been eliminated or shrunk a long time ago cannot be eliminated due to administrative support whereas some industries which should have been developed cannot be developed because no arrangement has been made in the plan or because economic parameters have been seriously distorted, resulting in the present irregular and irrational production structure. It would be very difficult to form a new rational production structure if we continue to follow this old path.

Therefore, on the basis of developing the mechanism of planning and the superiority of unified plans and guidances, we should bring in the market mechanism by means of reform and enable the production structure gradually to become rational by means of competition. This is the most effective mechanism for realizing the transfer of production structure. To do so, first of all, we should conduct thorough research, draw upon the successful experiences of developed and developing countries, and, in light of China's actual conditions, formulate scientific and feasible production goals and models to be used as the basis for the guidance of state policies. Second, state economic management departments, especially the planning commission, may, according to existing production policies and plans and through coordinating various economic parameters such as taxes, subsidies, and interest rates, change the market environment to protect the existence and development of some industries and trades and suppress the development of others to attain the goal of readjustment. Third, we should establish rules for the market mechanism and competition and enable all industries, trades, and enterprises to compete under the same conditions. They should decide on their own strategies and determine whether they can survive in accordance with the changes in social demand and the situation of market conditions. The key here is that there must be a rational pricing mechanism which can genuinely reflect the changes in social demand. A flexible rational pricing mechanism will lead to the rational flow of natural resources and enable production structure to become rationalized instead of causing the present "inverse effects." However, in order to do the above three things, we should further carry out reforms and, through reforms, open up a new road for readjusting production structure.

12302

CSO: 4006/957

ECONOMIC MANAGEMENT

BRIEFS

RESEARCHERS HELP YUNNAN FACTORIES--Kunming, 8 April (XINHUA)--Factories in Yunnan Province which lack technicians can now get help from researchers in schools of higher learning, provincial officials here have said. Staff members of universities, colleges and research institutes, who are eager to test their ideas in practice, have participated in 94 projects to boost production, and this in turn has contributed to their ongoing research. In one such project, researchers saved a light machinery plant plagued by outdated, unsellable products in a rural area 200 kilometers west of Kunming, the provincial capital. Working with factory workers, they developed a noodle-making machine that sold well on China's mainland and in Hong Kong, restoring prosperity to the enterprise. [Text] [Beijing XINHUA in English 0005 GMT 8 May 86 OW] /12858

NEW MANAGEMENT HELPS PORT--Shanghai, 9 May (XINHUA)--New self-management authority has enabled the port of Shanghai, China's largest, to begin to expand and upgrade its facilities in line with the country's economic development. All Chinese ports are managed by the central government's Ministry of Communications. But, according to Zhao Weichen, deputy chief of the Port Management Group of the State Council, China's highest governing body, there has been a significant transfer of power to local port authorities. The transfer, which eliminates the need for central government approval of expansion plans, was a "big decision for the central government and an important measure in restructuring China's communications system," Zhao was quoted as saying in today's ECONOMIC DAILY. The expansion plan made possible by the transfer of power "will boost the port's handling capacity and its economic efficiency," alleviating bottleneck problems caused by poor facilities and lack of an adequate number of berths, according to Zhao. The Shanghai port handles one-third of the country's cargo, he said. [Text] [Beijing XINHUA in English 1425 GMT 9 May 86 OW] /12858

CSO: 4020/324

FINANCE AND BANKING

TRANSREGIONAL FOREIGN EXCHANGE REGULATION EXPANDED

Hong Kong WEN WEI PO in Chinese 9 Apr 86 p 12

[Article: "Trans-regional Foreign Exchange Regulation Operations To Be Restored and Expanded This Year by the Bank of China--Admission of Chinese and Foreign Joint Ventures Still Being Studied"]

[Text] Wu Nianlu [0702 1819 7627], acting director of the International Monetary Research Institute of the headquarters of the Bank of China, revealed on 8 April that the Bank of China will restore in 1986 its trans-regional foreign exchange regulation operations and substantially increase the former rate of exchange in internal regulation. Currently, the internal exchange rate of Renminbi to the dollar is already 10 percent higher than the official rate.

Wu Nianlu revealed this information during an interview with the staff reporters of WEN WEI PO at the "Forum on China's Foreign Trade and Investment" which was held in Hong Kong on 8 April. He said the national foreign exchange regulation operation currently is applicable only to domestic enterprises and units and limited only to the part of foreign exchange retained by these units for their own use; therefore, the market will not be very broad. As for the question of whether Chinese and foreign joint ventures are allowed to take part in the regulation, studies are still being carried out and no final decision has been made yet. This is because foreign exchange can be regulated between two joint ventures according to rules.

Wu Nianlu said: As an internal operation of the Bank of China, foreign exchange regulation has been carried out for several years. However, due to various reasons, such as buyers outnumbering sellers and demand surpassing supply, this operation was suspended in 1986. Therefore, it is believed that restoring the operation and substantially increasing the exchange rate will better develop the function of regulation. As for how big the increase will be in the exchange rate, it is not appropriate to disclose it at the moment.

While talking about the issue concerning the Bank of China accepting irrevocable letters of credit issued by itself, Wu Nianlu said: At the end of 1985, the headquarters of the Bank of China held a national forum of all branch offices on the settlement of international accounts. The forum reiterated that no matter what happens, the Bank of China should and is fully

obligated to accept and pay for all irrevocable letters of credit it issued if documents correspond to each other. No matter what happens to import companies and whether or not they are willing to pay, as the Bank of China, it must honor the contracts it signed for the letters of credit.

China decided at the end of 1985 to plan for the construction of monetary centers in Chongqing, Wuhan, Guangzhou, Changzhou, and Shenyang. Wu Nianlu said: These five cities are actually pilot cities for the national reform of the monetary system, which will be concentrated on the following two questions: 1) How to establish a socialist capital market, improve credit instruments, and develop the horizontal links of capital and 2) how to run specialized banks like an enterprise. We hope that through this year's trial reform we will gradually create conditions, explore new roads, and lay a solid foundation for the all-round reform to be carried out in 1987 and 1988.

12302

CSO: 4006/953

FINANCE AND BANKING

CHINA'S STATE BUDGET MANAGEMENT SYSTEM

Beijing CAIZHENG [FINANCE] in Chinese No 3, 8 Mar 86 pp 40-41

[Article by Hu Luoting [5170 2867 0080]: "China's State Budget Management System"]

[Text] I. Principle for the Establishment of the State Budgetary Management System

The state budgetary management system is a basic system for dealing properly with the relationship of budgetary distribution between the central and local governments and among the localities at different levels and for determining the scope of budgetary incomes and expenditures and management responsibilities at various levels. An important component of the financial management system, it occupies a dominant position in the system.

The basic principle behind the establishment of the state budgetary management system is "centralized leadership and decentralized management." It is derived from the principle of democratic centralism adopted by the party and the state budgetary management system. It is a principle determined by the political and economic system of the nation.

The purpose of implementing the principle of "centralized leadership and decentralized management" in the establishment of the state budgetary management system is to ensure that the major part of the financial power of the state should be centralized in the central government as dictated by the state budgetary management system and to make available to the state the necessary funds for key constructions while maintaining a certain degree of stability in the localities, so that their financial mobility may be enhanced year by year and that they may be in a position to promote their economic development. Taking the interests of the whole into account, this principle, while safeguarding the overall interests of the nation, also enables the state to delegate certain financial powers to the lower levels, so that they may have some freedom of action to meet the needs of local conditions. While enabling the concerned departments to exercise their initiative to the full, this principle also serves to motivate the enthusiasm of the localities.

II. Basic Contents of the State Budgetary Management System

1. Establishing the State Budgetary Management System

Establishing our state budgetary management system is closely linked to our political structure and the division of our administrative areas. All areas above the county level with first-class political powers are vested with first-class independent budgetary powers. The administrative management system of the nation is divided into two major categories, namely, the central and local systems. Likewise, the state budget is made up of the budgets of the central and local governments. The budget of the central government is made up of the budgets of the various units of the various departments of the central government and the budgetary estimates of the financial receipts and expenditures of the enterprises under the various departments of the central government. The budgets of the local governments are made up of the budgetary estimates of the provinces, autonomous regions, municipalities directly under the central government and cities and counties under the municipalities. The total budget of the localities at various levels is made up of the budgets of the localities at the lower levels and the budgets and financial income and expenditure estimates of the various units at the same level. The budgets for the people's governments at the rural and township levels are in the process of being established.

2. The Division of Responsibility in the State Budgetary Management System

In accordance with the principle of centralized leadership and decentralized management, the proper demarcation of the limits of authority and responsibility for budgetary management at various levels is essential for establishing a relationship between the interests of the whole and those of the parts and between the centralization and decentralization of power. Generally speaking, authority over the state budget should mainly be vested in the central government. In exercising centralized leadership, the central government assumes the responsibility for the formulation of financial guiding principles and policies, planning and rectification of the state budget and setting up major budgetary rules and regulations. Authority exercised by the localities includes the drawing up of overall budgetary plans for the localities, the flexible allocation and utilization of the financial resources of the localities, the drawing up of specific measures for the implementation of the unified policies, decrees, and systems of the central government and the enforcement of the detailed rules and regulations.

The state is responsible for achieving a balance of payments in the budget, regulating budgetary funds among the various areas, and providing assistance to the economically undeveloped regions in general and areas inhabited by the minority nationalities in particular. The localities at various levels are responsible for achieving a balance of payments at their own levels.

3. The Allocation of State Budgetary Incomes and Expenditures

According to the state budgetary management system, the degree of authority over budgetary management and the scope of operations at various levels are largely reflected in the allocation of budgetary incomes and expenditures.

Generally speaking, incomes and expenditures should be allocated according to the following principles: First, they should be allocated under unified planning with consideration being given to all the factors. In other words, we should proceed from the standpoint of the whole nation, make plans on an overall basis, ensure the success of the key projects and give due consideration to all the factors. Second, financial power and the power to act must be coordinated. That is to say, in the allocation of incomes and expenditures, we must ensure that the administrative units at various levels should have the financial power to perform their functions. Third, we must ensure that expenditures are in keeping with incomes and that the degree of authority given to the administrative units at various levels is in proportion to their responsibilities. In other words, we must, in the allocation of incomes and expenditures, establish a relationship between budgetary incomes and expenditures of the localities and a coordinated relationship among responsibility, authority, and benefits.

4. Flexible Financial Resources of the Localities

By flexible budgetary financial resources of the localities is meant that part of the funds allocated to and made use of the localities themselves. They represent a supplementary measure for reconciling the limits of authority exercised by the state budgetary management system and the division of incomes and expenditures between the central government and the localities. Part of the flexible budgetary resources of the localities is derived from the reserve funds set up by the budget and part from increased incomes and surpluses resulting from reduced expenditures. As stipulated by the budgetary management system, the central government, as from 1976, is to make available to the localities a certain amount of resources while allocations for local budgetary expenditures are being made, so that such resources may be used by the localities to develop local economic, cultural, and welfare operations.

III. Evolution of the State Budgetary Management System

Since the establishment of the republic over 30 years ago, our state budgetary management system has undergone a number of changes. The main trend is the evolution from the highly centralized management system adopted in the early years of the republic to the delegation of management authority to the localities at different levels under the unified leadership of the central government in the allocation of financial resources of the central government and the localities in keeping with the developments in the political and economic situation.

In the early years of the republic, the highly centralized and unified budgetary management system calling for unified incomes and expenditures was adopted to meet the need for the unified financial and economic management of the entire nation. All incomes and expenditures and all income and expenditure measures and standards were set in a unified manner by the central government; all financial receipts and expenditures were required to be incorporated into the state budget and most of the financial authority exercised by the state was vested in the central government. In 1951, when the financial and

economic situation in the nation took a turn for the better, some authority in financial management was delegated to the lower levels and financial management was shared by the central government, the larger regions, and the provinces (municipalities under the central government). In 1953, when China embarked on its First 5-Year Plan in the development of the national economy, the localities were given a larger measure of authority over the management of their budgets with the adoption of the new three-level system of management shared by the central government, the provinces (autonomous regions and municipalities under the central government) and the counties (cities). The adoption of the new system has enabled the counties to bring their initiative into play in the financial management of the state budget.

Measures for the "classification and allocation of incomes" were adopted during the First 5-Year Plan. Budgetary incomes of the central government and the localities were divided into three categories, namely, fixed incomes, incomes allocated according to a fixed ratio, and readjusted allocated incomes. The allocation of expenditures was basically determined by the jurisdiction of the enterprises, businesses, and administrative units. The expenditures of the units were incorporated into the budgets of the departments to which they belonged. Expenditures for the reclamation of wastelands were disbursed by the central government to the localities as special allocations.

Between 1959 and 1970, the measure calling essentially for "division of the total amount, with revisions being made on an annual basis" was enforced. After the total incomes and expenditures of the localities had been approved by the central government, the ratio for the amounts going to the central and local governments was set and revised on an annual basis. This measure was adopted to meet the needs of the situation marked by considerable political and economic changes at the time.

At the start of the Fourth 5-Year Plan in 1971, the state put most of the enterprises and business units under the management of the localities. At the same time, the "income and expenditure contract" measure was adopted by the budgetary management system. According to this measure, the total amount of budgetary incomes and expenditures of the localities was set by the central government. Incomes over and above the amount of expenditures were paid into the budget of the central government according to the contract, while expenditures in excess of incomes were subsidized by the central government. At the end of the year, the surplus in budgetary incomes over expenditures was retained by the localities. The localities were made responsible for achieving a balance of payments. In 1974, the nationwide measure providing for the retention of budgetary incomes according to a fixed ratio, the setting of a ratio for the division of income surpluses, and the disbursement of expenditures according to the contract quota was adopted on a trial basis. While ensuring the localities a stable amount of flexible financial resources, this measure, due to the discrepancy between incomes and expenditures, failed to motivate the positive attitude of the localities to increase their incomes and reduce their expenditures to achieve a balance of payments and to implement the principle of establishing a proper relationship between the exercise of authority and the fulfillment of responsibilities. For this reason, the measure for the "division of the total amount with adjustments to be made on

an annual basis" was readopted in 1976. In 1978, the measure for the "division of increased incomes and the establishment of a relationship between incomes and expenditures" was adopted on a trial basis in certain provinces and cities. The ratio for the division of added incomes was set by the central and local governments through consultation.

With a view to implementing the policy of the central government to readjust the national economy and to bring about a gradual reform of the economic system, corresponding reforms were made in 1980 in the state budgetary management system, and the measure for the "division of incomes and expenditures and the adoption of the contract system at different levels" to remain unchanged for 5 years was adopted by most of the provinces on a trial basis. At the same time, in order to cope with the actual circumstances in various areas, the measure for contracting the units for the completion of large-scale budgetary tasks and for the "division of incomes and expenditures and the payment of fixed amounts to the state (or payment of fixed subsidies by the state)" was adopted by the provinces of Guangdong and Fujian; the budgetary management system for the nationalities localities for "setting the limits in the division of incomes and expenditures, the amounts of subsidies and the amounts to be retained by the localities on a preferential basis" was adopted for the eight regions of Nei Monggol, Xinjiang, Xizang, Ningxia, Guangxi, Yunnan, Qinghai and Guizhou; the measure for "the assumption of responsibilities according to fixed contract terms" was adopted by Jiangsu on a trial basis. This budgetary system based on the principle of "cooking meals on different stoves" has served to enlarge the financial powers of the localities, to further strengthen the positive attitude of the localities in the management of their own affairs and financial matters and to facilitate the reform of the economic system.

IV. The Present State Budgetary Management System

Since 1985, the new system for "the categorization of taxes, setting the amounts of incomes and expenditures, the assumption of responsibilities at different levels" was applied by the state to the various provinces, autonomous regions and municipalities under the central government (with the exception of Guangdong and Fujian). The major features of the system are as follows:

1. Budgetary incomes are set at various levels based primarily on the categories of taxes, including the fixed incomes of the central government and the localities and the incomes shared by the central and local governments.
2. Budgetary expenditures of the central and local governments will continue to be set according to their jurisdiction. Special expenditures for which the localities should not be held responsible, such as relief for extraordinary natural disasters, are to be disbursed by the central government instead of the local governments.
3. In accordance with provisions set up for the limits of incomes and expenditures of the provinces, autonomous regions and municipalities under the central government is to be turned over to the central government; if the

fixed incomes of the localities are smaller than their expenditures, a certain ratio of the amount shared by the central government and the localities is to be retained by the localities; if the fixed incomes of the localities and the amount to be shared by the central government and the localities and retained by the localities still fail to cover the expenditures of the localities, a fixed subsidy is to be paid by the central government. Once the ratio for the allocation of incomes, the amount to be paid to the central government and the subsidy to be paid by the central government have been determined, they are to remain unchanged for 5 years. The localities are to be permitted to increase their expenditures if their incomes are in excess of their expenditures and to reduce their expenditures if they are in excess of their incomes. The localities are to assume responsibility for achieving a balance of payments.

4. Measures for contracting the units for the completion of large-scale budgetary projects will continue to be adopted by the two provinces of Guangdong and Fujian. The fixed amounts to be paid to the central government and the fixed amounts of subsidy to be paid by the central government are to be readjusted according to changes in the income situation after reforms have been made. Within the period of 5 years, the amount of subsidy set by the central government and paid to the autonomous regions of the minority nationalities and the provinces accorded the same privileges as the autonomous regions of the minority nationalities is to be increased at the progressive rate of 10 percent annually.

The budgetary management system for the cities, autonomous prefectures and counties (autonomous counties and cities) is to be set up by the people's governments of the various provinces, autonomous regions and municipalities under the central government in keeping with the spirit of the new system approved by the State Council.

In view of the number of changing factors which have emerged during the reform of the economic system in the last 2 years and in order to deal with the question of distribution between the central and local governments more equitably, the fixed incomes of the central government are not to be shared by the localities, while the fixed budgetary incomes of the localities may be added to that shared by the central and local governments during 1985 and 1986, so that the localities may be able to meet their budgetary expenditures and "the distribution of the total amount" may be made according to the fixed ratio.

9621

CSO: 4006/900

FINANCE AND BANKING

ANNOUNCEMENTS OF ANHUI BRANCH OF PEOPLE'S BANK

Hefei ANHUI RIBAO in Chinese 4 Apr 86 p 1

[Announcement of the Anhui Branch of the People's Bank of China by Yang Changzeng [2799 7022 1073], president of the Anhui Branch of the People's Bank of China in April 1986]

[Text] In accordance with the "Interim Regulations of the People's Republic of China for the Management of Banks" and other relevant provisions, the Anhui Branch of the People's Bank of China makes the following announcements on several issues concerning the management of financial organizations:

1. All businesses involving deposits, loans, personal savings deposits, discount on promissory notes, foreign exchange, account settlement, trust, investment, rent and lease financing, and securities collecting are considered financial businesses; all banks, trust and investment companies, and rural credit cooperatives engaging in financial businesses are considered financial organizations.

2. The People's Bank of China is the organ in charge of the management of financial organizations. Any department or unit intending to engage in financial businesses and set up financial organizations or any specialized bank intending to set up branch offices must, in accordance with the limits of authority prescribed by the "Interim Regulations of the People's Republic of China for the Management of Banks," report to the headquarters, provincial, prefectural, and city branches of the People's Bank of China for approval and the requisition of the "Permit for Engaging in Financial Businesses," and, in accordance with the "Regulations for the Registration and Control of Industrial and Commercial Enterprises," follow the procedures of registration and obtain a business license before opening the business.

3. The necessary establishment of financial trust and investment companies and urban credit cooperatives in large and medium-sized cities must conform to the relevant regulations of the People's Bank of China and obtain the "Permit for Engaging in Financial Businesses" from the People's Bank of China before they can begin business. With regard to the establishment of branch offices by rural credit cooperatives, the People's Bank of China will authorize the Agricultural Bank of China to carry out the examination and approval and the "Permit for Engaging in Financial Businesses" will be issued by prefectural

and city branches of the People's Bank of China. Rural credit cooperatives are not allowed to set up branch offices in urban areas.

4. It is not permitted for local people's governments at all levels to set up local banks.

5. Non-financial organizations are not allowed to engage in financial businesses. Financial and accounting companies, financial guidance stations, agricultural economic companies, and welfare funds established by rural areas to strengthen the management of public accumulation and welfare funds of former communes and brigades are not allowed to engage in financial (credit) businesses.

Individuals are not allowed to establish banks or other financial organizations nor engage in financial businesses.

5. All branches of specialized banks and other financial organizations established without the approval of the People's Bank of China are illegal. Industrial and commercial administrative and management departments will not issue them business licenses. Enterprises, units, individual depositors, and all of their business contacts and deposits will not be protected by law. Local people's banks should order them to close down and confiscate their illegal earnings according to law. The departments concerned should investigate to find out who is to blame for direct administrative responsibilities.

The above regulations are clearly stipulated in the "Interim Regulations of the People's Republic of China for the Management of Banks" and the "Interim Regulations for the Control of the Establishment or Abolition of Financial Organizations" issued by the People's Bank of China. This announcement is made especially to repeat these regulations.

12302

C30: 4006/953

FINANCE AND BANKING

EFFECTS OF MACROECONOMIC CONTROL ON MONEY MARKET DISCUSSED

Beijing ZHONGGUO JINRONG [CHINA'S BANKING] in Chinese No 12, 4 Dec 85 pp 22-24

[Article by Yu Ruixiang [0827 3843 4382]: "Macroeconomic Control and State of Money Market"]

[Text] Enterprises in many localities have recently complained about the shortage of funds, while newspapers and magazines have also carried articles with the appeal that the "emergency brake" should not be used to strengthen macroeconomic control and that the bank should not tighten the issuance of currency. These views have given the impression that the present shortage of funds has been caused by the bank's use of the "emergency brake" and its reduction of currency in circulation. This question deserves some study.

"Emergency Brake"

Strengthened macroeconomic control is an objective need for a planned commodity economy. This basic principle must be upheld at all times. At present, such control is even more necessary for the following reasons:

First, last year's economic growth was too fast and went beyond the capability of the national economy. In 1984, the gross national value of industrial and agricultural output increased 14.2 percent over the previous year, and from January to September this year, the total industrial output value again increased 21.1 percent over the same period last year. Such a high speed can hardly be maintained since it will be difficult for the development of energy, transportation, and raw materials to keep pace.

Second, the excessive speed of industrial and agricultural growth last year certainly had its material foundation after several years of economic development. However, stimulation from the use of foreign exchange was also one of the important causes. Such a high speed, achieved through reliance on the use of the state's foreign exchange reserve, cannot be maintained indefinitely and must be checked as soon as possible.

Third, last year's currency issuance was excessive, that is, excessive to the needs for commodity circulation.

To avoid tension and chaos in our economic life and to create a favorable economic atmosphere and financial environment for the reform, we must adopt the policy of strengthening the macroeconomic control and tightening the money market according to the general ideological guideline. We must also control the scope of credit and the amount of currency in circulation and ascertain a rational economic growth rate in order to ensure the sustained, stable, and harmonious development of the national economy. In handling the relationship between economy and finance in the past, we usually considered only the decisive effects of economy on finance and overlooked the countereffects of finance on economy. The bank's credit and cash plans must be based on production and circulation. However, these plans must not be treated as an economic appendage. If the bank must enlarge the scope of credit and increase the amount of currency in circulation no matter whether the economic growth is rational or not, then the restrictive role of finance on economy will be totally lost. Now, the strengthening of macroeconomic control in finance is stressed for the purpose of controlling the speed of economic growth by limiting the scope of credit and the amount of currency in circulation, and preventing the use of credit in the blind quest for output and output value which would bring chaos to our economic life. Of course, strengthening the macroeconomic control and tightening the issuance of currency does not mean an indiscriminate reduction of loans, but rather the need to proceed from realities with economic benefits as the main goal. We must resolutely restrict whatever should be restricted and actively support whatever should be supported in order to use money to the best advantage and to "cook with less rice." Some people believed that the bank was using the "emergency brake" in strengthening macroeconomic control and the money market was tightened suddenly and drastically with adverse effects on production and circulation. Since such a belief is based on some misunderstanding of the realities of finance, some explanation may be in order.

Let us look at the matter from the standpoint of credit and cash plans. Although the scope of credit and the issuance of currency were already excessive last year, the method of using the "emergency brake" or "going downhill" was never used in formulating the credit and cash plans of the current year. On the contrary, consideration was given not only to the strengthening of macroeconomic control, but also to the rational requirements of economic growth. The scope of credit this year has been enlarged even after the drastic enlargement of last year, while plans are still being made for the issuance of currency.

The balance of loans has by no means been reduced, but rather increased. This shows that in actual credit work, the question of using the "emergency brake" did not arise. It is true that the control of loans this year is stricter than in last year when loans were granted liberally. This is probably one of the causes for some localities' feeling that the money market has been tightened.

Now from the standpoint of currency circulation, it is true that this year's currency issuance has been reduced, but not much. In the first 6 months of this year, compared with the same period last year, the savings deposits in cash totaled 22.65 billion yuan, and the proceeds from commodity sales increased by 32 billion yuan. The fact that the amount of currency in

circulation was increased under these conditions shows that the grant of loans and issuance of currency have continued to increase in the first half of this year.

For these reasons, the present problem is caused not by the adverse effects on economic development from the shortage of currency in circulation, but mainly by the excessive economic growth and the indiscriminate demands for loans. Precisely because of this, the CPC Central Committee pointed out in the Proposal for the Seventh 5-Year Plan: "In view of the present over-extended scale of construction, the amount of investment in fixed assets for 1986 and 1987 will remain roughly the same. In the last 3 years of the plan, it may be increased according to circumstances." This is a scientific approach of seeking truth from facts. It not only creates a favorable economic environment for the reform, but is also highly significant in guaranteeing a sustained, stable, and harmonious development of the national economy.

Shortage of Funds?

At present, some departments have the feelings that funds are in short supply. Besides the excessive speed of economic growth as the basic cause, there are also certain concrete problems.

(1) Last year, fund control was lax, and many projects were started on a large scale. The continuance of these projects this year has become an arduous task. In the case of Guangxi, for example, the investment in fixed assets reported by the localities in the autonomous region, after careful screening by the bank, still amounted to more than 600 million yuan, while the scope of credit defined by the central authorities was for only 300 million yuan. This shortfall was the cause of all the outcries.

(2) The enterprises did not have adequate circulating funds to meet the needs of increased production and had to turn to the bank for loans. According to incomplete statistics of eight branches of the People's Bank in Hebei, Liaoning, Heilongjiang, Shanghai, Jiangxi, Anhui, Sichuan, and Guangxi, the replenishment of circulating funds owned by the enterprises themselves amounted to 99.73 million yuan in 1984, only 0.34 percent of their circulating funds (including state allocations) for the same period, and the remaining required amount was underwritten by the bank. Under these conditions, any slight pressure from the bank would be keenly felt by the enterprises as a handicap to their operations.

(3) The poor management of enterprises and their serious financial waste aggravated the shortage of funds. As the situation now stands, the enterprises are in a position to share more profits, while the state has to underwrite their losses.

The Way Out?

In view of the present realities, the most important task for us in solving the problem of fund shortage is to check the excessive speed of economic growth and to use the available funds wisely in order to improve the economic results. Therefore, we must carefully attend to the following points:

(1) Strengthening the macroeconomic control and maintaining a sustained, stable and harmonious development of the national economy. The problem of funds is, in the final analysis, a problem of materials. There must be a normal development of the national economy and increases in the national income and material wealth before there can be a material foundation for the solution of the fund shortage problem. Therefore, it is extremely necessary for us to strengthen the macroeconomic control, to maintain a sustained, stable, and harmonious economic development and to eliminate the "exaggerations" in order to solve the problem of funds. At the same time, we must achieve a comprehensive balance, prevent the over-distribution of national income, and strictly control the scale of capital construction investment in order to increase the sources of revenues and credit funds. All these are the important means to solve the problem of funds, and none of them can be separated from a strengthened macroeconomic control and regulation.

(2) Correctly handling the relationship between needs and capability and doing our work meticulously and efficiently as long as it is objectively possible. The bank can only do what it can with loans within the scope defined by the state and then try to analyze, screen, and arrange the priority order of requirements so that the loans will be extended to the deserving ones and the money will be put to the best use. Applications for loans will be either accepted or rejected on the basis of the economic results. Those deserving support will be strongly supported and those requiring restrictions will be strictly restricted.

(3) Adopting practical and effective measures to ensure that the enterprises can continue to replenish their own circulating funds on the basis of developing their production and increasing their income. Two methods may be considered in speeding up the replenishment of the enterprises' own circulating funds: First, charging fees for the use of circulating funds allocated by the state and these fees should be kept in the People's Bank, to be used for replenishing the enterprises' circulating funds. Second, setting up a special "replenishment of circulating funds" account with the retained profits. The total retained profits will serve as the base figure and 10 percent of this figure should go into this special account. The bank will appropriately reduce credit for those failing to pay into this account and impose penalties on the amounts previously advanced. As to the circulating funds required when a new or expanded enterprise goes into operation, we must insist that the unit responsible for the project should provide 30 percent of the circulating funds, or the bank will not grant any loan. The same methods should apply to the new and expanded enterprises with investment provided for in the state budget. These methods are not only useful in controlling the scale of capital construction and the loans, but also in inducing the localities to provide for the necessary circulating funds according to regulations in building and expanding enterprises.

(4) Strengthening enterprise management and improving economic results in the use of funds. Experiences over many years have shown that it is much more difficult to improve the management and the economic results than to increase the growth speed and the output value. The improvement of management and economic results is particularly needed at a time when all enterprises are

vigorously striving for a high growth speed. Since improvement in these respects will not come in response to a general call, there must be economic legislation to hold the leadership of enterprises truly responsible for the use of funds.

9411
CSO:4006/551

FINANCE AND BANKING

FINANCIAL REFORM IN NORTHWEST DISCUSSED

Beijing JINGJIXUE ZHOUBAO in Chinese 9 Mar 86 p 4

[Article by Wang Runqing [3769 3387 7230]: "How to Reform the Financial System; A Review of the First Northwest Regional Conference on Financial Theory"]

[Text] The first Northwest Regional Conference on Financial Theory was convened late last year in Lintong, Shaanxi. Focusing on the issue of the reform of the financial system, the following two problems were explored:

I. The Professionalization of Specialized Banks

On the question of whether or not specialized banks can be operated as businesses, most comrades agreed that this must occur if the specialized banks are to enliven and enhance economic returns on their capital. Some pointed out that specialized banks are enterprises of a special nature, and are not ordinary enterprises. This is primarily reflected in the fact that: A. Specialized banks deal in special commodities--currency and credit--not ordinary commodities. B. Specialized bank revenues, expenditures and credit have their own unique laws of motion which differ from laws of commodity movement. C. The operational goals of the specialized bank include enhancing social benefit as well as increasing bank profits, which makes it more complex than the ordinary enterprise. D. The specialized bank has a unique double function and takes on financial management tasks given it by the state in addition to its business activities, which makes it different from the ordinary enterprise that is organized purely to conduct business. It is these special characteristics that require that adoption of special business practices in the process of professionalization. However, a minority of comrades believe that while it is acceptable to call for banking professionalization as a general goal, it would not likely work well at present for the following major reasons: 1. If professionalization were to be implemented, the problem of blind profit seeking would emerge. Current problems relating to interbank competition and risk-taking in credit would be unresolvable. 2. Specialized banks also have administrative and supervisory functions which are not suited to the functions of business professionalization. 3. There is too much administrative intervention at present, which would render bank autonomy meaningless. 4. It would be impossible to identify and delineate the powers, responsibilities and interests of the specialized banks; therefore it would be pointless to discuss their professionalization.

Many comrades who took part in the discussion believe that to reform specialized banks in the direction of business professionalization urgently requires a resolution of the problem of stifling control. (1) In the management of credit planning, the central bank controls both the amount and scope of the specialized bank's lending activities, allowing for a large volume of savings while limiting loan extension, which is not helpful in stimulating the use of capital. (2) Interest rates are too rigid, and no fluctuations are permitted. (3) Internal accounting is controlled too inflexibly. (4) Personnel agencies are controlled excessively so that there are frequent shortages of staff, something which is detrimental to operational work. Some people hold that the specialized bank is faced with several contradictions. The first is the contradiction between urban-rural supply and demand. The second is the contradiction between the overcentralized power of the leadership and the local banks' relative lack of autonomy. Only if these contradictions are resolved can the specialized banks gradually implement business professionalization.

To review the views of those present concerning how the specialized banks are to implement professionalization, everyone felt that there must be a genuine, close integration of responsibility, power and profit. (1) Power: includes the right to manage and adjust credit funds, to select fund-raising and credit methods, to choose loan customers, to determine the amounts and terms of loans and to exercise economic control. (2) Responsibilities: includes systems of responsibility over fund management, credit, business targets and economic accounting. (3) Profit: there must be a connection between economic returns of the banks and the economic interests of its staff. When business is good and profits exceed norms, bonuses should be raised and collective social benefits improved. The reverse should occur when business is poor.

As to the creation of specialized banks in the northwest, some comrades suggested the establishment of a Western Development Bank and a Western Animal Husbandry Bank, with general offices located in the west in order to encourage economic development in the region and make full use of its animal resources.

II. The Creation of a Capital Market and Amassing Social Capital

Everyone believed that this is an important component part of China's socialist market system, and that it should be gradually opened up. There were two different views that emerged in the discussion on the scope of the capital market. Some comrades believed that the term "capital market" refers to direct financial activities that take place outside of the state's plan for banking credit, but most comrades felt that the capital market should include indirect capital from the state's banks as well as direct capital from society. Some comrades suggested that China's capital market should: center mainly around state bank credit, allowing for all categories of credit; center primarily around indirect credit with various types of direct capital as supplement; center primarily around the vertical readjustment of capital with various categories of horizontal capital as a supplement, thereby distinguishing between the alternation of horizontal and vertical methods of capital accommodation.

As for the question of collecting social capital, everyone felt that this is a type of credit activity involving a direct contractual agreement between the extender and user of capital. The major forms of amassing social capital at present are issuing bank shares and bonds.

Everyone believed that the positive role of raising social capital should be affirmed, primarily because: (1) it is beneficial in accelerating the pace of the concentration and accumulation of capital; (2) it is beneficial in strengthening horizontal economic relations; (3) it is beneficial in increasing economic returns of society as a whole; (4) it is beneficial in the reform of the system of capital distribution of the banks; (5) it is beneficial to the transformation of consumer funds; (6) it is beneficial in importing capital and advanced technology and equipment from abroad; (7) it is beneficial to arranging for the employment of labor; (8) it is beneficial in improving the level of enterprise management. Some comrades believe it is helpful in affecting a more rapid transformation of enterprises into share-holding entities, but some comrades disagreed and believe that under socialist conditions, whether or not this should occur constitutes a major political question that requires further theoretical study.

The following problems relating to the amassing at the present time of social funds were raised: (1) the lack of leadership and the emergence of an aimlessness which is detrimental to the overall planning and disposition of funds and has led to the expansion of the scope of investment in fixed assets; (2) difficulties in controlling the direction of capital flow, which has led to blind and overlapping construction, attacks on key state projects and so on; (3) the excessive distribution of earnings which is detrimental to the rational arrangement of the growth of consumption funds; (4) administrative directives, rigid allocations, etc.

Regarding the enhancing of management over the collection of social capital, the comrades present believed that the creation and implementation by the state council "Management Code Concerning the Amassing of Social Capital" is urgently needed. Specific ideas include: 1. The fund raiser must be an economic entity with corporate status, and possess 10 to 30 percent of the total sum to be raised. 2. The principle of voluntary subscription must be adhered to. The subscribing enterprise cannot use circulating funds and bank credit to participate. 3. Capital that is to be raised for capital construction must first obtain a certificate confirming the project is part of capital construction plans from the supervisory organ. 4. Principle and interest cannot be returned until after a project is completed and returns come in. Dividends and bonuses cannot be added into costs and are to be distributed from after-tax profits. An upper margin should be delineated.

12221/12859

CSO: 4006/877

FINANCE AND BANKING

BRIEFS

URBAN SAVINGS DEPOSITS--Beijing, 10 May (XINHUA)--Savings deposits in urban areas of China hit a record 100 billion yuan at the end of April, the ECONOMIC DAILY said today. The paper, reporting statistics from the Chinese Industrial and Commercial Bank, said this was up 25.44 million yuan from the same date in 1985. Most of the new savings has been in certificates of deposit for fixed time periods, according to the bank. [Text] [Beijing XINHUA in English 0158 GMT 10 May 86 OW] /12858

CSO: 4020/324

INDUSTRY

SHANGHAI AREA SHIPYARDS REPORT OUTPUT, QUALITY GAINS

Beijing CHUANBO SHIJIE [SHIP WORLD] IN Chinese No 39, 3 Oct 85 p 1

[Article: "Shanghai Shipbuilding Industry Advances Amidst Reform"]

[Text] Under the impetus of the party Central Committee and State Council policy for economic system reform, and on the basis of last year's successes, the Shanghai area's shipbuilding industry again showed new development and sustained economic and production growth. In facing this year's tasks, Shanghai companies devised battlelines of intracompany labor competition which promoted production development and quality upgrading. Gross value of industrial output [GV10] and value of repairs both exceeded figures for the same period last year. The specifics are as follows.

1. New Ship Production Rose Steadily

GV10 through August was 69.4 percent of the annual plan, a real increase of 4.4 percent compared to the same period last year. The value of ships repaired fulfilled 99.6 percent of the annual plan, 36.9 percent more than the amount completed in the same period last year. The Zhonghua, Jiangnan, and Hudong shipyards have completed the planned repair value for this year ahead of time.

Work was completed on: one 36,000-ton freighter, four 20,000-ton freighters, one 5000/7000-ton multiuse ship, and two 5,000-ton freighters, all of which were finished and delivered according to plan. Work was begun on: two 35,000-ton freighters, one 65,000-ton tanker, one 20,000-ton freighter, two 5,000/7,000 ton multiuse ships, and two 5,000-ton tankers, all under construction according to plan.

Each shipyard completed its own responsibilities. The Jiangnan Shipyard was assigned construction of six ships in the 10,000-ton-and-over class in the annual plan, and has actually completed three to date. The current rate of ship construction is very fast. A 20,000-ton No 3 freighter has already been launched and tested; docking equipment for a No 4 boat has been completed. Of those ships under construction: a No 1 35,000-ton freighter is in the process of being assembled in the slipway while a No 2 ship has finished assembly and is on the slipway. Besides fulfilling its own responsibilities, this shipyard has also agreed to take on the final phases of

construction, testing, and delivery of a 300-container-capacity container ship for the Wuhu Shipyard. This ship has already been transported to the Jiangnan Shipyard and is currently undergoing final construction.

The Shanghai Shipyard's status is also very good. It was slated to produce three 10,000-ton and up ships in this year's plan. To date, two ships have been completed and a third 20,000-ton freighter (a Zhenfen No 9) is undergoing in-harbor testing. Confidence is very high at this yard as it is obvious that their annual plan quota will be fulfilled ahead of schedule. At the Qiuxin Shipyard, the construction rate is also emphasized; two ships have been finished and delivered so far this year. Two 8,200-ton No 3 container ships have been constructed by the Zhonghua Shipyard and are currently being tested at berth.

In order to be even more outstanding, the Hudong Shipyard conducted special worker mobilization meetings to accelerate construction. Many workshops, technical offices and other personnel groups stood up and made it plain that they were determined to fight on to the end of the year. With the completion of a 36,000-ton freighter as a base, the factory made even more progress in improving its pace construction. At the moment, a 36,000-ton No 2 freighter has been launched and will soon be delivered. Construction on a No 3 ship has also been stepped up, with launching in the near future.

Engine-production results were also good. Cumulative statistics through August show completion of 130,246 horsepower, 55.6 percent of the annual plan, and an increase of 24 percent over the same period last year. Anchor chain production achieved 77 percent of the annual plan, up 19.3 percent over the same period last year.

2. New Improvements in Product Quality

New quality improvements over the current year were a result of several factors. All shipyards continued to strengthen their quality work by employing the quality-first directive, setting up quality guarantee systems, and establishing quality criteria for acceptance of goods. In addition, quality grades and "create excellence" programs were vigorously initiated in order to make employees firmly aware of the great importance of improving product quality.

The 21,000-ton No 4 coal boat and 20,000-ton No 1 coal boat built by the Jiangnan Shipyard completely conformed to principal measurements and deflection requirements. The cabins of these boats were also precision tested for rate of leakage with an average 1.05 instances per cabin, while the 20,000-ton freighter's rate surpassed the standard at 0.3. The rate of meeting delivery testing requirements the first time reached 99 percent. Speed-test results all surpassed contract requirements. Four 21,000-ton bulk cargo ships have been in service for a half year; their owners expressed satisfaction with their quality. A No 2 ship fared well under testing in a gale-force storm--the ship's internal structure and other parts were all in good technical condition.

Following identification and resolution of key problems, the Hudong-produced medium-speed diesel 12E390 V-engine had increased performance as well as far superior reliability. After installation and testing in a ship, the engine received praise from users.

The principal measurements of a 5,000-ton ocean freighter built by the Qiuxin Shipyard reached blueprint specifications, and the same welds were very well formed. Installation and adjustment of main equipment, engine, and electrical systems all conformed to plan. After an ocean-going test of all principal technical capabilities attained design specifications, the ship took its maiden voyage to Japan where it received good reviews from its owner.

The 3,200-horsepower tugboat built by the Donghai Factory has completed work called for in the blueprint and is ready for testing. The quality of this boat is excellent and surpassed all of the design technological targets.

The 5,000/7,000-ton multipurpose freighters constructed by the Shanghai and Zhonghua shipyards also had new improvements in both welding and assembly quality.

13088/12948

CSO: 4006/287

INDUSTRY

BRIEFS

STATE EXPANDING SHIPBUILDING CENTERS--Beijing, 12 May (XINHUA)--China plans to expand six shipbuilding centers in the 1986-90 period, according to INTERNATIONAL BUSINESS journal. These are the Dalian shipyard, the Zhonghua, Shanghai, Jiangnan and Hudong shipyards in Shanghai and the Guangzhou shipyard. By 1990, their output will make up for two-thirds of the total of the China State Shipbuilding Corporation. Projects planned during the next 5 years include improving the servicing facilities for a slipway for 100,000 DWT-class ships in Dalian shipyard, and adding an assembling and welding platform to enable Hudong shipyard to produce 60,000 DWT-class ships. The China State Shipbuilding Corporation has contracted to build 112 ships and marine oil-drilling platforms for export since 1979, earning 1,270 million U.S. dollars of foreign exchange. In the first quarter of this year, it signed contracts with foreign firms on the export of eight ships totalling 220,000 DWT. The journal said that China is now able to build ships up to any international standards, sailing in any navigable water and carrying flags of any nation. [Text] [Beijing XINHUA in English 1224 GMT 12 May 86] /12232

MONGGOL WIND-DRIVEN GENERATORS--The Nei Monggol Autonomous Region has been vigorously producing wind-driven generators. According to statistics, the region has mainline and accessory facility manufacturing enterprises with an annual capacity of 15,000 units at present. Last year these enterprises produced 8,600 generators, 64 percent of the national total. Over the last few years, the Nei Monggol Autonomous Region Machinery Office has tried to change the backwardness of its pasture, forest, and mountain areas by greatly developing wind-driven generators. Last year they successfully developed eight models of wind-driven generators, three of which, the 50-, 100-, and 2,000-Watt models, have been put into large-scale production. The Shangdu Animal Husbandry Equipment Factory's 100-Watt model is a fourth generation model that has already been improved 27 times with a resultant 54 percent decrease in production costs and the lowest domestic price among comparable products. This generator also received the Autonomous Region's "excellent" rating. Because the wind-powered generators it produces are high quality, inexpensive, and easy to put into operation, the factory has already sold generators to over 20 provinces, cities, and autonomous regions. [Text] [Beijing ZHONGGUO JIXIE BAO in Chinese 20 Sep 85 p 1] 13088/12948

CSO: 4006/353

SMALL-SCALE ENTERPRISES

TIANJIN TOWNSHIP ENTERPRISE PRODUCT STANDARDIZATION PUSHED

Beijing ZHONGGUO XIANGZHEN QIYE BAO in Chinese 14 Dec 85 p 1

[Article by Zhang Xiaojian [1728 2556 1696]: "Tianjin Municipality Township and Town Enterprises Make Remarkable Progress in Standardization; In a Survey of Nearly 3,000 Products, 21 Percent Put into Practice National Standards or Department Mandated Standards, and 64 Percent Put into Practice Enterprise Standards; The Quality of 8 of These Products Occupies a Forward Position Nationally"]

[Text] With market product competition increasingly fierce, the Tianjin Municipality township and town enterprise management departments are confronting the problems of some township and town enterprise products lacking trademarks and their products having low and uneven quality. All of the municipality's township and town enterprises have implemented across-the-board product standardization, thus bringing about a noticeable improvement in product quality and economic results and notable social benefits.

Recently, according to a survey of 2,900 different township and town enterprise products, 260 have implemented national standards and 356 have implemented department mandated standards, representing 21 percent of the products. More than 1,800, or 64 percent, have implemented enterprise standards. A portion of these enterprise products has achieved advanced national and international quality standards. In promoting standardization they have focused on the following tasks:

1. Training and establishing a corps of standardization personnel: since last year the municipality, districts, counties, townships, and towns have adopted the practice of running classes at different levels, holding separate professional training classes for basic standardization knowledge so that standardization personnel will be able to realize a new national standard in their work. More than 2,300 key technical staff were trained, forming a complete corps of standardization personnel. This year Jinghai County held separate standardization training classes for the county's 27 townships, and allocated full-time cadres for managing standardization work in each township. Ninghe County established a county standardization center and standardization work group office to promote the development of standardization work, and strengthened supervision and leadership.

2. Formulation of enterprise standards: since 1983, township and town enterprises, scientific research departments, and municipal industries have joined forces in manufacturing one after another a group of new scientific research products. These products have no domestic standards to follow. The Municipal Township and Town Enterprise Department's formulation of enterprise standardization for these products is an important task in promoting standardization. By the end of this October, the Municipal Bureau of Standards, following Municipal Township and Town Enterprise Department examination and approval, had formally issued 77 township and town enterprise product standards using Tianjin Municipality enterprise standards. Adopting international standards and foreign advanced standards, the Municipal Bureau of Standards recently certified six product enterprise standards for the small air compressors of Dongjiao District, the highly purified calcium stearate of Jinghai County, the organic Kaolin of Xijiao District, the building joints of the Danggu District, the galvanized steel tubing of Beijiao District, and electric welding rods of Dagang District.

3. Supervised testing of key products and of development of superior products: this year the Municipal Township and Town Enterprise Department and Municipal Bureau of Standards have jointly instituted supervised testing for plugs and outlets, beer, electric blankets, and ballast manufactured by township and town enterprises. When products are found to be substandard, the enterprise will have a limited period to improve and will be compelled to produce according to standards. With regard to rural enterprise innovative and good products, when asked to submit innovative and good product projects, standardization implementation forms must be submitted; forms for enterprise internal-regulation standards which are higher than national and department standards must also be submitted. Those that are qualified must also adopt international standards, thereby guaranteeing stable quality in innovative and good products. The eight products which have been judged this year as innovative and good in the municipality are organic Kaolin, bare copper wire, electric welding rods, ceramsite, building joints, and so forth. Since undergoing testing by the relevant municipal organs, product quality of all of these holds a leading position domestically, as they have received good evaluations.

13152/12859

CSO: 4006/579

SMALL-SCALE ENTERPRISES

SICHUAN TOWNSHIP, TOWN ENTERPRISE 1985 OUTPUT UP 48 PERCENT

Chengdu SICHUAN RIBAO in Chinese 16 Dec 85 p 1

[Article by Shen Xiangju [3088 7449 5468] and He Zhengkuan [0149 2973 1401]: "Sichuan's Township and Town Enterprises Complete Annual Plan Ahead of Time; Great Achievements in the Last Year of the Sixth 5-Year Plan; Gross Output Value Has Already Reached 13.1 Billion yuan, the Best Year in Economic Results in the Sixth 5-Year Plan Period"]

[Text] The steady development of Sichuan's township and town enterprises continued this year, exceeded the year's quota and completed the full year's plan ahead of time, and was the best year in economic results in the Sixth 5-Year Plan period. By the end of November, gross output value had already reached 13.1 billion yuan and income from sales had reached 10.28 billion yuan, 48-percent and 53-percent increases respectively over the same period last year, and correspondingly there also was an increase in tax funds turned over to the state and in profits earned.

With the province's rural industrial structure undergoing readjustment this year, farmer enthusiasm for running enterprises is soaring and rural enterprises continued to realize enrichment and development. Compared with the same period last year, Sichuan's township and town raw coal production rose by 28 percent, reaching 20 million metric tons. Iron ore, electricity generated, cement, brick and tile, food processed, silk products, hemp products, and tea leaves all grew by considerable margins. Currently, the output value realized in agricultural sideline processing, energy, mining, building materials, construction, and other industries is already over 70 percent of gross output value. Product mix is becoming increasingly rational.

This year Sichuan party committees and governments at all levels have fully emphasized correctly guiding the healthy development of township and town enterprises, and, in the new circumstances of the state tightening credit and controlling the scale of credit, conscientiously carrying out the provincial committee's guiding principle of "finding a living when things are tight, finding good things during shortages, and going all out to cooperate and make it through hardship," planning rationally, gauging abilities and acting accordingly, eliminating items that cannot go into operation this year, cutting down the scale of projects under construction, opening up multiple channels for funding sources, and guaranteeing that a large group of technological improvement items and priority items is successfully built and put into operation.

The provincial government will promptly provide 10 million yuan in special funds to support the development of "short, appropriate, and quick" items in rural enterprises, various localities will still bring in more than 10 million yuan in funds from various relevant departments inside and outside the province, and the masses will be mobilized to accumulate more than 700 million yuan in capital to alleviate the contradictions of insufficient capital. The township and town enterprise system is to do a solid job of renewing and reforming the potential of old enterprises, use the old to lead in the new, and strengthen the vigor of enterprises. Peasant household industries and joint enterprises are developing vigorously, and have become a new force in the rural enterprise system.

13152/12859

CSO: 4006/579

SMALL-SCALE ENTERPRISES

SICHUAN S&T PERSONNEL AID TOWNSHIP, TOWN ENTERPRISES

Shanghai WEN HUI BAO in Chinese 3 Mar 86 p 1

[Article by reporters Shen Zhuanxin [3088 1413 0207] and Deng Zhong [6772 6850]]

[Text] In order to bring modern science and technology to the industries of rural villages, more than 10,000 of Sichuan's science and technology personnel are helping to raise the management level of small and medium-sized township and town enterprises and are promoting technological progress. This activity is being carried out directly under the orders of the Sichuan provincial government.

Sichuan Governor Jian Minkuan [5592 3046 1401] realizes that science and technology, information and knowledge are required to make Sichuan wealthy as soon as possible. In promoting production in the peasant villages, science and technology are inseparable from the development of the commodity economy. Only when the commodity economy is developed to a certain level can science and technology be applied to the intensive requirements of productions. At present, there are many localities in Sichuan with self-sufficient small peasant economies, especially among the minority peoples dwelling in the mountainous regions and outlying districts, who lack the concept of a commodity economy. Moreover, lacking this kind of concept, they also lack any enthusiasm for the development of commodity production and naturally can have no interest in science and technology. When they arrived at the villages, the science and technology personnel had to develop a commodity economy to set an example for the farmers.

These 10,000 science and technology personnel were all transferred from institutes of higher learning, scientific research units and large factories. The process of helping small and medium-sized township and town enterprises takes many forms. Some of them make up a cooperative network of science and technology personnel, forming a rather complete cooperative brigade of specialists serving the local small and medium-sized township and town enterprises. Some allow the technologically superior enterprises and resource-rich locations to sign joint agreements, and help by fitting in with their vocational specialties. Some produce many kinds of joint entities passing on their managerial knowledge to the town and township enterprises and cultivating talent. Some are building science and technology service organizations, providing consultation and leadership to the small and medium-sized township

and town enterprises. And some have chosen suitable comprehensive experimental bases for the institutions of higher learning to carry out education, research and the promotion of mutual cooperation, trained a large backbone of science and technology for the peasant villages, and promoted the production of local enterprises.

13263/12851

CSO: 4008/2092

CONSTRUCTION

BRIEFS

CONTAINER DOCKS PLANNED--Beijing, 8 May (XINHUA)--China plans to construct 20 container and multiple-purpose docks over the next 5 years, according to today's edition of INTERNATIONAL BUSINESS. With construction of the docks, the country's total container handling capacity will increase from the present 7 million tons to over 10 million tons by the year 1990, said the paper which is published 3 times a week. China now has eight container docks. The new docks will be built in Shanghai, Dalian, Qinhaungdao, Qingdao, Linyungang, Ningbo, Nantong, and Nanjing. [Text] [Beijing XINHUA in English 1230 GMT 8 May 86 OW] /12232

CSO: 4020/321

FOREIGN TRADE AND INVESTMENT

ANNIVERSARY OF SINO-POLISH SHIPPING COMPANY MARKED

OW170826 Beijing XINHUA in English 0809 GMT 17 Apr 86

[Text] Gdynia, 16 April (XINHUA)--Chinese Minister of Communications Qian Yongchang expressed his thanks here today to the Polish Government for its "friendly help" to China by founding the Sino-Polish Shipping Company 35 years ago.

Addressing a ceremony marking the 35th anniversary of the founding of the Sino-Polish Shipping Company, the minister said the founding of the company played an "active role" in helping China break the economic sanctions imposed on China by the then government of the United States. The Chinese people and government appreciate and will remember forever this friendly help as an expression of proletarian internationalism.

The company has also played an important role in developing the economies of the two countries and made contributions to the friendship between the two peoples, he added.

With a more than 9-time increase in its volume of capital, the Sino-Polish Shipping Company now owns 23 ships with a total capacity of 350,000 tons, about 3.5 times over the first days of its founding. In the past 35 years, it has made about 2,300 voyages, carrying a total of 22.5 million tons of goods.

Adam Nowotnik, chief of the Polish Bureau of Maritime Economy, said that the company would go down in history with its great contributions which were made under extremely difficult and complicated situations to the mutually beneficial cooperation between the two countries. He expressed his confidence that the company will surely make greater contribution in the future to developing the economic cooperation and friendship between the two peoples.

/12232

CSO: 4020/322

FOREIGN TRADE AND INVESTMENT

BRIEFS

CSSR CHAMBER OF COMMERCE OFFICIAL--Beijing, 27 April (XINHUA)--Song Ping, state councillor and minister in charge of the State Planning Commission, met here today Ludvik Cerny, chairman of the Czechoslovak Chamber of Commerce and Industry, and his party. During the meeting, Song and Cerny expressed the wish to further economic relations and trade between the two countries. Cerny and his party arrived here yesterday at the invitation of the China Council for the Promotion of International Trade. [Text] [Beijing XINHUA in English 1224 GMT 27 Apr 86 OW] /12232

POLAND VEHICLE EXPORTS--Warsaw, 8 May (XINHUA)--Poland will export 15,000 cars and trucks to China this year under a contract signed here today. The contract, worth more than 100 million Swiss francs, constitutes Poland's largest export of cars and trucks. The vehicles China will import include Poland's cars, Fiat 125P, Fiat 126P and Jelcz trucks. According to Poland's official news agency PAP, Poland last year exported 7,600 trucks and coaches to China, its largest car trade partner. [Text] [Beijing XINHUA in English 1106 GMT 9 May 86 OW] /12232

CHEMICAL DELEGATION IN SFRY--Belgrade, 14 May (XINHUA)--Mijat Sukovic, Yugoslav vice president of the Federal Executive Council, today discussed with head of the Chinese chemical delegation on cooperation between their countries. Sukovic said developing trade and achieving a trade balance with China are in line with Yugoslavia's strategic interests. He said his government supports all economic and business cooperation between the two countries. The Chinese delegation arrived here last week for business negotiations at the invitation of Ina-Naftagas, one of Yugoslavia's four big petroleum companies. [Text] [Beijing XINHUA in English 0638 GMT 15 May 86 OW] /12232

CSO: 4020/320

LABOR AND WAGES

PROBLEMS OF WAGE, LABOR RACE DISCUSSED

Beijing BAN YUE TAN in Chinese No 5, 10 Mar 85 pp 27-29

[Article by Hu Xiaoyi [5170 2556 5030]: "On the Issue of Wage and Bonus Race"]

[Text] Currently, the phenomenon of a race has appeared in regard to the issue of wages and bonuses. Such a race exists between enterprises and state organs and establishments and among different enterprises and units. Although there are some objective causes such as imperfect policies and incomplete measures, the phenomenon of a race is caused mainly by the fact that some people still have some confused ideas. It is necessary to present the facts, reason things out, and clarify such ideas.

In the wage reform of 1984, seeing that state organs and establishments had a bigger raise than enterprises, the staff members and workers of some enterprises felt that they suffered losses and demanded that they get the same level of raises as that of state organs and establishments. Judged by the wage increase of 1984 alone, the employees of state organs and establishments did get a bigger raise than the staff members and workers of general enterprises. But if we look back a few more years and review the situation of wage increases since the 3d Plenum of the 11th CPC Central Committee, we will find out that in the past 7 years the amount and rate of wage increases of enterprises' staff and workers have been higher than those of the employees of state organs and establishments. In 1978, the average annual wage of the staff and workers of state-run industrial enterprises was 21 yuan higher than that of the employees of state organs. Six years later in 1984, the average annual wage increase rate of the employees of state organs was 49.8 percent while that of the staff and workers of state-run industrial enterprises was 56.8 percent. The average wage of enterprise staff and workers was 79 yuan higher than that of state organ employees. In some industries, the rate of wage increases was even greater. Even after the wage reform of 1984, the wage level of state organ employees is still lower than that of enterprise staff and workers. It is thus clear that the argument that enterprise staff and workers suffered losses in the wage reform compared to the cadres of state organs is groundless.

With regard to this issue, we should also correctly understand the differences in the roles and wages of white-collar and manual workers. State organs and establishments are units where white-collar workers are concentrated. In the

past, due to the influence of "leftist" ideas and various other reasons, the role of white-collar workers was underestimated and the wage and income level of China's white-collar workers remained low over a prolonged period of time which was very abnormal. The material wealth of society is created jointly by white-collar and manual workers. Generally speaking, the degree of complexity involved in white-collar labor is higher than that of manual labor. Along with the development of the modernization drive, the achievements of white-collar labor will be increasingly prominent. Therefore, it is rational for the wage level of white-collar workers to be a little higher. Not only is this an indispensable condition for white-collar labor itself but more importantly it will be conducive to the development of social production, the improvement of material and cultural living standards and the literacy of the working class and all laborers. In recent years the party and the government have adopted a series of measures including the one adopted in 1984 during the wage reform to allow a higher wage increase for the employees of state organs and establishments. This is very necessary for gradually changing the low wage level of China's white-collar workers and carrying out rational readjustment of wage relations.

Of course, this does not mean that the wage level of all manual workers should be lower than that of white-collar workers. The socialist distribution principle of personal consumer goods is to each according to his work. Anyone who has worked hard and made greater contribution to society deserves greater reward no matter whether he or she is a white-collar or manual worker. Those manual workers whose work conditions are poor and labor is strenuous ought to have higher wages than those of ordinary white-collar workers.

Seeing that other enterprises have a higher wage and bonus increase than their enterprise, some enterprise staff and workers demand that they be treated the same as those with higher wages and bonuses in disregard of their conditions and economic results. Such thinking of enterprises racing against each other should also be corrected. At present, the overwhelming majority of enterprises have carried out the second step in the substitution of tax payment for profit delivery and the distribution relation between the state and enterprises has been clarified tentatively. As long as enterprises work hard to increase production and economic results, enterprises' profit retention and their staff and workers' wages and bonuses will increase accordingly. Of course during a certain period of time, there will be some differences in the amount and rate of wage and bonus increases between different enterprises. Such differences generally are determined mainly by the degree of efforts made by enterprises and their staff and workers in production, operation, and management. Therefore, enterprises should compare with each other in regard to production, operation, management, product quality, and labor efficiency. In other words, they should compare their contributions. Without better production and higher efficiency, how can the personal income of staff and workers increase? As for the objective factors that caused the great disparity in the wage levels of enterprises, the state has adopted some control and regulatory measures and is planning to draw up additional new measures and work out better solutions.

Some staff and workers, especially those in state-owned enterprises, have strong reactions to the issue that some members of society have excessively

high income. We should look at this issue from two angles. On the one hand, China still lacks experience in economic reform and some policy measures are not perfect and mature, thus resulting in the phenomenon that some members of society (such as individual industrial and commercial households in urban and rural areas) have excessively high income. In view of this, the state is now working hard to draw up improvement measures. On the other hand, we should not fail to notice that the income composition of staff and workers is not totally comparable with that of certain members of society. For instance, the wages of staff and workers basically can be used all in consumption while part of the income of individual industrial and commercial households should be reinvested and cannot be used in personal consumption. Moreover, there are risks involved in the businesses of individual industrial and commercial households. It is inappropriate to make indiscriminate and blind comparison. As for individual members of society who use illegal means to obtain high income, they will reap what they have sown in due time because their activities are proscribed by formal decrees of the state.

A wage and bonus race not only can cause ideological confusion and undermine the stable and united political situation but it also will cause an adverse effect on China's economic growth. If units of lower wage and bonus levels vie to emulate those of higher wage and bonus levels in disregard of conditions and contributions, it will be inevitable for China to go back to the "big communal pot"--the old trail of egalitarianism. What is more serious is that it will result in rotating wage increases and loss of control over consumption funds and cause the consumption level to rise far beyond the bearing capacity of economic growth, thereby resulting in inflation and sharp price increases. If so, both the immediate and long-term interests of the broad masses of staff and workers will be harmed to a great extent. Therefore, it is necessary resolutely to prevent and overcome the tendency for a wage and bonus race.

12302

CSO: 4006/910

LABOR AND WAGES

LABOR SERVICE COMPANY HELPS WORKERS IN SHEKOU

OW071808 Beijing XINHUA in English 0642 GMT 7 May 86

[Text] Shekou, 7 May (by XINHUA correspondent Fang Xin)--Workers in the Shekou industrial area--a special area close to Hong Kong now open to foreign, Hong Kong and Macao investment--can lose their jobs but not their "rice bowls".

The local labor service company, which is responsible for recommending workers to factories using foreign investment, provides food allowances to those fired by their bosses and helps them find new jobs. "The workers are required to contribute 20 percent of their monthly wages to the company's welfare program, which covers medical expenses, old-age pension and unemployment subsidies," said Zhang Hankuang, manager of the company.

Every month about 60 workers fired from the 100-odd factories with foreign investment in this district come to the company for help, Zhang said.

According to China's law of labor management for joint ventures using Chinese and foreign capital, workers can be fired for violating factory regulations or because of the factories' efficiency measures. They also may resign in order to look for better jobs, Zhang added.

The labor service company will then send them on training courses to improve their skills or learn new skills. During the training, they receive a monthly food allowance of 30 yuan from the company.

[Beijing XINHUA in English in its repeats of this item at 0947 and 1418 GMT on 7 May inserts the following paragraph at this point: "The company will recommend them to other employers, Zhang said, adding that a recent survey conducted by the company shows that most of the retrained workers work well at their new jobs."]

"We have managed to ensure the independence of enterprises using foreign investment in management," Zhang said. "Meanwhile, we try to retain the good aspect of China's current labor system under which no worker is fired unless he or she is convicted of criminal offenses or responsible for serious accidents."

The Shekou Labor Service Company, set up in 1981, serves as a labor pool for the 20,000 workers in the district managed by the China Merchants Steam Navigation Co. Ltd. of Hong Kong, Zhang said. It signs labor contracts with local enterprises on behalf of the local authorities. Such contracts stipulate the responsibilities for both the employers and employees, and the conditions for promotion and punishment.

While seeing to it that the legitimate rights of the investors are protected, Zhang said, the company tries its best to ensure the interests of the employees.

One case involved a Japanese company in the district, which failed to meet the contract requirements for payment and fringe benefits. On behalf of the 2,000 workers there, Zhang said, the Labor Service Company negotiated with the Japanese business and succeeded in making it honor the contracts.

/12858

CSO: 4020/324

LABOR AND WAGES

OVERSEAS RENMIN RIBAO REPORTS ON XIAN TECHNICIANS

OW160528 Beijing XINHUA in English 0139 GMT 16 May 86

[Text] Beijing, 16 May (XINHUA)--A network to promote the circulation of technicians and technical information between factories has been built up in Xian, capital of Shaanxi Province, the overseas edition of PEOPLE'S DAILY reported.

The network helps technicians to transfer from one enterprise to another and assists in technical training, co-operation and consultancy.

The city, which has a population of 5,400,000 first set up a technician exchange center in August, 1984. Since then, the center has been approached by 8,700 technical workers, 3,000 of whom have applied for transfers. Of these, 834 have been helped to change jobs.

Personnel exchange is already paying off for some enterprises. One suburban cable plant has saved more than 300,000 yuan investment and achieved an output value of 600,000 yuan a month with the help of seven technicians introduced by the technician exchange center.

The government has been keen to promote the exchange of skilled workers. Premier Zhao Ziyang called for the "rational circulation of the labor force" at the annual session of the National People's Congress earlier this year to change the existing personnel management system which makes it difficult for workers to change jobs.

/12858

CSO: 4020/324

LABOR AND WAGES

BRIEFS

RETIREES TOTAL OVER 16 MILLION--Beijing, 10 May (XINHUA)--China has 16.37 million retirees by the end of 1985, is equal to some 10 percent of the present workforce, according to an official release by the State Statistical Bureau today. [sentence as received] The number of retirees averaged 1.64 million a year over the past five years, the bureau said. The government paid out pensions totalling 14.5 billion yuan in 1985, averaging 935 yuan per person. [Text] [Beijing XINHUA in English 1457 GMT 10 May 86 OW] /12858

CSO: 4020/324

TRANSPORTATION

NEEDED RAILROAD ELECTRICAL EQUIPMENT IMPROVEMENTS OUTLINED

Beijing TIEDAO TONGXIN XINHAO [RAILWAY COMMUNICATION AND SIGNALS] in Chinese No 1, Jan 86 pp 2-6

[Article by Electrical Bureau, Ministry of Railways: "Reform, Innovate, Forge Ahead, Actively Pitch In for the Magnificent Practice of Carrying Out the Seventh Five-Year Plan"]

[Text] 1986 marks the first year of the Seventh Five-Year Plan. The CPC Central Committee has called upon us to adopt a spirit of reform, innovation and forging ahead, to pitch in actively for the magnificent practice of the Seventh Five-Year Plan, and to take a firm grip on the first year tasks of the Seventh Five-Year Plan, which hold major significance for fulfillment of the Seventh Five-Year Plan. Railroad transportation currently remains a conspicuously weak link in the national economy that is not in keeping with needs for development of industrial and agricultural production. A change in this passive state of affairs is one of the key problems to be solved during the Seventh Five-Year Plan period. The central task is major efforts to upgrade overall transportation capabilities to ameliorate the shortage of transportation while still running trains on time, providing excellent service and producing fine results, and to make ready a certain reserve for the booming of the national economy for the next 10 years. Electrical departments have to plan their own work in accordance with the central tasks and overall goals of railroad transportation. They must insure that highest social results are obtained and quick results are obtained from little investment in electrical equipment. They must meet railroad needs by tapping the potential of existing equipment, through the development and importation of new technology, and by using advanced communications and signaling equipment, making the most of their own special strengths and roles to improve overall transportation capabilities. It is with these goals in mind that ideas and views about work for this year and several years to come are proposed.

I. Intensified Building of Spiritual Civilization, Firmly Establishing a Psychology of Service to Transportation.

Firm establishment of a psychology of service to transportation has been a focal point in electrical work during the past several years, and it has also been a major ingredient in electrical units' building of spiritual civilization. To persevere in service to transportation is to think about

transportation matters that require thinking about, and to be anxious about transportation matters about which one should be anxious. These thoughts should act as guidance for bringing about a new situation in electrical departments and be translated into conscious action. In recent years, staff members and workers in our electrical system have done a large amount of work in the realm of service to transportation in actively expanding the scope of service, showing to the full the role of electrical departments in transportation endeavors. In constructing trains and the "three major kinds of vehicles," in particular, electrical staff members and workers have toiled arduously on each of the links of research and development, installation, utilization and maintenance, scoring outstanding results in raising transportation capabilities and insuring safety. In recent years, they have also ushered in a new situation in grade level crossing safety. Construction of grade level crossing signals during 1985 was faster than in any year.

For some time to come, we believe that the policy for electrical work should be: to center on transportation, to make the most of advantages, to expand service, and to forge ahead. In 1986 and during the period of the Seventh Five-Year Plan, the following key tasks should be taken firmly in hand in order to improve transportation capabilities.

(1) Coordination of requirements for departure loading and train make-up, rendering a good performance in the following several regards:

1. Conscientious critiquing of how the Model 309 radio train dispatchers and the 400 kHz inductor two-way telephones are being used on the electrified section of the Fengtai-Shahezhen-Datou Line [in Greater Beijing], making proposals for improvements to the system.

2. Careful attention to completion of the work of importing radio train dispatching equipment on the Shijiazhuang-Yangquan-Taiyuan Line to solve the problem of radio contact among trains in mountain areas.

3. Need to organize and carry out research on automatic blocking interval time and signal display systems in making up overly long trains, providing a technical plan for optimum through capabilities between areas. Active research on the compatibility of the three display system currently in use or import of a new model four display system automatic blocking equipment and selection of a location for testing as soon as possible.

4. Experiments on electrical interference on signal equipment caused by large traction current in connection with the make-up of trains from departure on the Fengtai-Shahezhen-Datou Line to obtain experimental data to counter interference.

5. Active matching of station railroad siding protracted movement equipment, replacing interlocking electrical circuits.

(2) Coordination of expanded marshaling of passenger trains.

1. Careful attention to the placing in production of 130 watt receiving, amplifying and recording train broadcasting system, providing long passenger trains with radio broadcast equipment.

2. Telephones aboard passenger trains to solve communications problems on long passenger trains.

(3) Coordination in abolition of cabooses

1. After importing inter-area axle-calculating blocking equipment, trials should be urgently run in order to gain experience in their use that can be disseminated.

2. Critique of the use of inter-area inspection equipment such as axle-calculating equipment on the non-electrified Qiqihaer section, of the axle calculating equipment on the electrified Baoji-Fengxian section in the Zhengzhou Railroad Bureau, and the 25 Hz long track electric circuit in the Chengdu Railroad Bureau, using it in conjunction with Model 64D automatic blocking equipment for inspection of entire trains.

3. Research and development of inductance inspection devices for the last car on trains.

(4) Coordination for improvement of classification capabilities at railroad hubs.

1. Continued development of yard radio classification equipment, critiquing their use, formulating management methods and establishing maintenance and repair systems.

2. Spread of the use of hub classification supervisory systems.

3. Energetic development of mechanized humps and semi-automatic humps, with general installation of hump locomotive signals.

4. Installation of speed regulating equipment on classification lines, i.e., use of small retarders to bring about further destination braking to improve the hook-up rate.

5. Intensification of experiments for ZK₃ structural improvements in order to insure hump switching equipment safety.

6. Step-by-step development of electric power concentration in grade crossing switching areas, with grade crossing switching single hook release operation being used for the present.

(5) Coordination of the improvement of inter-area traffic capacity (including intermediate stations).

1. A change to 8 minute intervals, insofar as possible, for double track three display automatic blocking.

2. Active carrying out of pilot projects for twin track bi-directional automatic blocking.

3. Development of marshaling control and warning equipment in double tracked sections.

4. Improvement of the reliability of existing automatic blocking equipment for a reduction in the inter-area red light breakdowns.

5. All stations without separation equipment on busy single track lines should increase the number of signal warning points and try out train speed control equipment in a planned way in order to improve safety.

6. Acceleration of the installation of locomotive signal code equipment at intermediate stations on mainlines and on surrounding lines. Places having requisite conditions should install locomotive signaling equipment between stations and lines for an expansion of the scope of application of "three important matters."

7. Active development of dispatching and marshaling equipment on cut-in sections associated with double tracks to solve the problem of insufficient capacity and the fairly slow increase in traffic capacity, and of raising capacity of single line sections where double tracking is not possible within the near future such as on the Lanzhou-Urumqi Line.

8. Active promotion of alternating current 480 ohms track electrical circuit biao-diao [2871 6148] plans to reduce the number of red light problems that occur during rainy weather on sidings in classification stations.

9. Active effort to import or experiment with micro-computer controlled dispatching and marshaling, attention to be focused on the Baoji-Fengxian section of the Zhengzhou Railroad Bureau as a pilot project for the acquisition of experience.

10. Active promotion of solar energy as a source of power on sections that lack other sources of electricity.

11. Installation of double acting switching secondary terminal mitie [1378 6317] inspection equipment, first for operating locomotives and later for switch engines, and first for trunk lines and later for spur lines, the better to insure double acting switch safety.

2. Serious Attention To Improvement of the Economic Management System To Advance Development of Electrical Work

Reform of the grassroots level economic management system has moved ahead in recent years in a process of feeling the way. Numerous electrical sections have changed their internal management structure and have perfected economic responsibility systems whereby responsibilities, rights and benefits are linked, and they have revamped their external economic relationships, carrying out numerous courageous efforts at reform. The thrust of these reforms has basically been on target and development has been healthy.

The organizational set-up of electrical sections has devoted attention to the carrying out of reforms that fit in more with serving the needs of the grassroots. Electrical section organizations have improved their production, dispatching and direction systems; They have set up a special quality control functional system; they have strengthened their technical management systems by having an engineer head them; and they have emphasized direct service to production and grassroots management organizations by overall units for personnel, finances, planning and materials. They have paid general attention to making the most of the managerial role of the foreman level of the grassroots management system, some of them making work foremen centers for production direction while others have used foremen as a small economic entity within electrical sections. In the production direction section, general attention has been paid to the need for reform of maintenance and repair methods. Inspection and repair bases have been set up that are geared to lateral management organizations. Practice has demonstrated that these methods have rather effectively promoted development of electrical work.

Second, attention has been directed to the goal of improving transportation effectiveness by directly linking electrical economic responsibilities and earnings from transportation, i.e., the carrying out of fruitful efforts to forge a link with branch bureau economic effectiveness. For example, the Nanjing electrical section ruled that in final economic accountings with branch bureaus, the conversion set per ton kilometer would be increased by between 1 and 4 percent, 4 and 7 percent, and more than 7 percent; thus, electrical operating expenses would correspondingly increase by 1, 2, and 3 percent. In the Jinan Bureau, the Xuzhou Branch Bureau tried out a "four in one" (stations, maintenance, rolling stock, and electrical work) switching responsibility system for the Xuzhou marshaling station that unified standards of responsibility for transportation production, responsibility for division of labor, and integrated evaluations, and set uniform labor compensation for better solutions to problems of excessive disparity in distributions among units, which aroused enthusiasm in all quarters and scored remarkable economic results. Though these accounting methods cannot be reflected entirely in the role of electrical work in overall transportation effectiveness, nevertheless, a heartening step has been taken.

The aforementioned reforms are still only a preliminary effort. There is a very long distance to go to reach the requirements set in the "CPC Committee Decisions on Economic System Reforms," and numerous problems remain that require our exploration. This requires that we combine a spirit of innovation with a realistic attitude and conduct constant critiques as we gain practical experience so that reform of the economic system of the electrical department will thrive.

3. Further Spread of Reforms in Maintenance Work, Steadily Improving the Quality of Electrical Equipment Performance

Reform of the electrical system's maintenance work began in 1979 and has been going on for nearly 6 years. The fundamental task in reform of maintenance work lies in using guaranteed equipment reliability as a basis for improving

the extent to which equipment may be used, satisfying to the maximum degree needs for equipment in transportation production, the focus to be using every available means to improve equipment reliability (the reliability of both individual pieces of equipment and of systems).

The fundamental substance of maintenance work reform lies in the following: To change repairs that are presently done on the road to in-shop repairs whenever possible, i.e., to replace at regular intervals all equipment that can be dismantled or removed for inspection and repair in shops. This will both insure quality in inspection and repair and will also reduce adverse effects on transportation. There should be a change away from a decentralization of repairs to centralization of repairs, i.e., for the installation of equipment on the road that cannot be moved, a special corps should concentrate the needed manpower and material resources to make concerted repairs in order to raise to the full the quality of equipment in use. Equipment in the same system that is repaired at different sites and at different times should be repaired in a phased system to increase the quality of equipment in use throughout the whole system. Electrical testing should be increased and a special testing corps set up for gradual development of controlled preventive repairs to produce a benign cycle of equipment maintenance.

For day-to-day maintenance work, a system should be instituted of daily checks, monthly inspections, seasonal inspections and repairs, and annual overhauls, with everything possible being done to reduce the conventional metering times so as to reduce the impact of human error and key operating areas on transportation.

Everything possible should be done in busy transportation zones to avoid using intervals between trains to inspect and repair. Instead, the following method should be employed: Full use on electrified sections of "skylight" periods to make repairs. In hump yards, inspection and repairs may be made during halts when shifts change at stations. At large stations, every effort should be made to include electrical inspections and repairs in daily operating plans, effecting repairs at planned times. Large operations should be made a part of monthly branch bureau transportation plans, operations being suspended according to plan.

Promotion of maintenance reforms requires corresponding changes in the organization of maintenance, with the establishment and bolstering of various kinds of inspection and repair bases and repair teams. It must be realized that until such time as there has been marked improvement in the reliability of equipment, intensification of the building of bases will remain extremely necessary. In this regard, the following is required:

1. A full complement of personnel at inspection and repair bases, giving special attention to having technical personnel on hand.
2. Perfection of the management system to do a good job of quality inspection on equipment leaving the shop to reduce the frequency of returns for repairs.
3. Conscientious adoption of advanced inspection and repair techniques and promotion of advanced operating methods.

4. Improvement of required inspection techniques to improve quality of inspection and repairs.

5. It is necessary to make full use of a large body of accumulated rotational repair data and to conduct needed checks on how equipment is used, scientifically determining the repair cycle that should be used for various kinds of equipment. Once the inspection and repair cycle for all kinds of equipment has been set by the railroad bureaus, it is to be carried out by bureaus, suiting general methods to specific circumstances.

We must also strive to develop the purview of micro-computer testing technology so that major pieces of equipment are controlled by micro-computer processing systems for automatic records keeping, automatic testing, and giving warning of troubles. This is the way to bring about controlled preventive repairs or in-service repairs to attain the goal of little or no maintenance.

4. Carry Forward a Spirit of Seeking Truth in Facts and Do a Solid Job of Safety in Production

Safety in production is the overall embodiment of the quality of work of all railroad departments, all individual jobs and the work of each and every staff member and worker on the railroad. Practice has demonstrated that good performance of safety in production entails tackling problems in an overall way, i.e., being guided by thinking in which rigorousness is first, using high standards to require education in safety, firmly establishing a psychology of safety first, and strictly carrying into effect every effective rule and regulation on safety in production, halting violations in operations and persevering in unflaggingly giving attention to work at the grassroots. A solid job must be done on all basic work and the bolstering of scientific management. Advanced technical equipment that insures transportation safety should be widely adopted as a means of gaining consistent results over a long period of time.

Two matters should be given attention for safety in production at the present time:

(1) Adherence to the Party's spirit of seeking truth in facts, correcting unhealthy tendencies toward resorting to deception about safety in production.

The Ministry of Railways' Party organization enlarged conference pointed out that "real efforts must be devoted to safety in production with no resorting to trickery. Correct handling of the relationship between safety and efficiency requires constant improvement in relevant safety examination criteria and methods of meting out rewards and punishments." This view is completely consistent with the present state of safety in production in the electrical system of the Ministry of Railways. Consequently, those methods of checking that do not advance the development of productivity but rather hamper the development of production have to be abolished. The goal of the electrical system should be no occurrence of major accidents or dangerous accidents. For minor accidents, the general accident rate should be used as

the indicator for how good safety is. Furthermore, every effort should be made to get rid of a large number of ways of doing things that cause accidents involving penalties. Only by so doing can the real situation be reflected. This holds numerous advantages and no disadvantages.

(2) Adherence to the Concept of Service to Transportation Safety

The more advanced the performance of electrical equipment, the higher its safety performance and the more completely it is interlocked. Then accidents for which electrical departments are responsible decrease greatly or do not occur. This has been a pattern demonstrated in practice. We have analyzed major train accidents that have taken place in the rolling stock system during the past several years, finding that 50 percent of them occurred in non-marshaling interlocked train stations and 17 percent of them occurred in electric marshaling station non-interlocked areas and during periods when signaling equipment was not in use. Sixty-seven percent of accidents occurred under these circumstances. Since the end of the 1960's, an average of 2,000 switches have been installed at 100 stations each year on electric marshaling stations on all lines, yet major accidents on all roads in recent years have declined by an average 55 per year.

However, as far as electrical departments are concerned, the more complete and the more advanced the functioning of electrical equipment, the more complex the equipment and the greater the number of parts used, meaning the greater the opportunities for accidents to occur and the greater the possibility for the occurrence of minor accidents. During the 1950's, for example, minor accidents numbered 500 per year; during the 1960's, the average was 1,200, and during the 1970's it was 1,700. So far in the 1980's, it has been 2,300. Therefore, advanced electrical equipment has meant that electrical staff members and workers have not only had to do more maintenance work, but they have also had to bear greater risks. It has been worth it, however. The large increase in minor accidents in the electrical system has brought a trade-off in much much fewer major accidents. This demonstrates that taking on heavier burdens and facing greater risks for the overall benefit of transportation is a necessary duty.

5. Thoroughgoing Promotion of All-around Quality Control and Intensification of Staff Member and Worker Technical Training

(1) It was in 1979 that electrical departments launched an all-out campaign for quality control. After 6 years of unflagging efforts in general education, training of permanent cadres, the running of pilot projects, critiquing and exchanging experiences, this method of scientific control has penetrated through all links of electrical management. A substantial number of electrical sections have become a part of regular control channels and have played an outstanding role in improving enterprise quality, in improving enterprise management, and in solving key problems in production technology. For some time to come, the requirements for all-around quality control will be as follows:

1. All-around examination and critiquing of major experiences during the past several years in comprehensive quality control work, focusing on existing problems, and formulating actions for improvement.

2. Further bolstering of basic work in quality control in conjunction with the reform of enterprises that is underway for good performance in the scientific management of enterprises.

3. Leaders at all levels should be concerned with quality control team activities, strengthening leadership, and specific guidance to quality control teams as well as providing them with necessary working conditions.

4. Pursuit of a policy of emphasis on education first and last, continuing to expand basic information about comprehensive quality control, and education in basic methods and the various tools to be used for a further rise in consciousness about and work methods for quality control.

(2) Good performance in technical and vocational training to accelerate the training of skilled people. As science and technology advances, the updating of electrical equipment becomes faster and faster. Consequently, an overwhelming majority of people including cadres, engineers and technicians, and workers have to study and update their knowledge constantly.

The country requires that workers and beginning level technical brush-up courses be used as a basis for higher levels to get workers started on middle level technical training. The electrical system has to coordinate actively with educational departments in carrying out this task. Right now, it is necessary to begin to formulate and publish relevant teaching outlines and specialized training materials and to formulate various professional standards so as gradually to begin professional training in various fields. This is a painstaking task that requires pilot projects and the critiquing of experiences with them. Only through persistence in the education of staff members and workers can results be obtained. Investment in intellect is a project of vital and lasting importance. We must not miss any opportunities to persevere in the education of staff members and workers.

6. Take Firm Grip on Management of Overhauls To Get the Most from Investment

Major electrical overhaul work has scored very great achievements in recent years. It has concentrated the funds necessary for improving transportation capacity to carry out a technical transformation of bottlenecks on several major trunklines. Nevertheless, major electrical overhauls remain a weak link in electrical work. (1) Since funds for major overhauls are insufficient, it is impossible to guarantee that the cycle for major overhauls of electrical equipment will be adhered to. This means that electrical equipment has to remain in service longer than it should, producing a vicious cycle in which capital is consumed. (2) Dispersal of funds for major electrical repairs is a serious problem, making it impossible for a technical transformation section by section to form a network through major overhauls, as a result of which benefits from investment are not high. We believe that it would be more advantageous for railroad bureaus to make unified plans on a bureau-wide scale for large scale major electrical overhauls. (3) In the realm of the management

system, the body of manpower for major overhauls is fairly dispersed; capabilities are mutually canceling, and work periods are very drawn out. Though there should be no forced uniformity in the management system at the present time, at least each bureau should maintain a competent corps for planning and carrying out major electrical overhauls, major repairs of electrical equipment thereby having some reliable assurance of being done. In addition, electrical departments should unify information about major overall projects in their own bureau. Each electrical office should designate a functional office and designate personnel for major overhaul projects, regularly collecting and reporting to higher authority project status reports.

Ideas For the Future

(1) The ministry's major communications project during the Seventh Five-Year Plan is to open a network on the Beijing-Guangzhou and the Longhai trunklines, and to make major improvements on the communications lines on the Beijing-Zhengzhou and the Wuhan-Hengyang lines in order to solve the problem of serious overloading of circuits on the Beijing-Guangzhou line. On the Zhengzhou-Baoji section, in addition to the electrification project presently under consideration, investment in major overhaul will open 960 circuits to solve the overloading of circuits on the western part of the Longhai Line. The emphasis on the northern trunkline network is on the Jining-Hohhot Line; in the southwest it is on the Daxian-Chongqing Line; in the northwest, it on on the Hami-Urumqi Line; and in the northeast it is on the Harbin-Qiqihaer and the Changchun-Jilin Line, all of which would have communications open for use as quickly as possible.

(2) In 1986, a major overhaul to update signals will focus on finishing up a major overhaul of automatic blocking between Shenyang and Changchun; on an automatic blocking project between Wuhan and Hengyang; on completion of a project to improve automatic blocking between Tianjin and Shanhaiguan; and on beginning work on the construction and improvement of automatic blocking between Shenyang and Shanhaiguan, and between Shenyang and Dalian. Acting in accordance with the principle of trunklines first and spur lines second, passengers first and freight second, the work of installing locomotive signals will focus this year on trunkline additions. On sections where locomotive warning equipment has already been installed, second warning points will be installed. On sections where old style dual frequency point warnings have been installed, updating to new dual frequency point locomotive signaling equipment will be done. Installation of signals at level crossings will focus first on level crossings on international train trunklines and on 15 major trunklines.

(3) In order to insure progress on key projects, it is recommended that funds for locomotive signals, level crossing signals and on-board radios on locomotives be included in railway bureau and branch bureau funds to insure that work is done.

(4) Strive for effectiveness and strive for quality and practice the letting of bids for project construction and give priority in the letting of bids to construction units that produce good quality, enjoy a high reputation, and

charge fair prices to encourage competition and to advance progress on projects for early service and early benefits.

7. Good Performance in Scientific and Technical Planning for Active Promotion of Progress in Electrical Technology

The work of electrical departments must explicitly adhere to reliance on scientific and technical progress to develop ideas and concepts for electrical matters in accordance with specific policies and requirements from the State Council regarding technical progress in enterprises, as well as the principles laid down in "Major Technical Policies For Railroads" in conjunction with the basic tasks for railroad work set by the Ministry of Railways Party organization. In the future, "CPC Central Committee Decisions on Reform of the Scientific and Technological System" will have to be carried out in the performance of electrical work, with further adherence to its statement that "a change is needed in technical development work, with imported technology placed in an important position for the development of production techniques and the transformation of existing enterprises." It will also be necessary to act in the spirit that "research and development work in China should be closely linked to imported technology and advanced technology digested and absorbed in order to raise the starting point for development of production techniques and going on to develop new innovations and increase capabilities for developing techniques on our own," with electrical departments doing a good job of importing, digesting, developing and innovating. At the same time, it will be necessary to eradicate further conservative ideas of following beaten paths and standing pat. It will also be necessary to overcome blindness in the importation of technology and correctly handle the relationship between the importation of equipment and the importation of technology, the relationship between the importation of technology and scientific research being conducted on problems in China, and the cooperative relationship between the imported technology and the division of labor for production within the country and within regions. Thus, overall planning that takes all factors into account is required, using unified policies and standards. This is particularly important for technology and equipment that has a bearing on whole projects and whole networks, and serious attention must be directed to this point. In addition, in the realm of the development of new technology, we believe in the advocacy of letting a hundred flowers blossom and a hundred schools of thought contend, weeding through the old to bring forth the new, and supporting pilot projects. However, in the spread of technology, unified research and strict mastery are necessary with no going off in all directions. It must benefit unified management, mutual dovetailing and integration into a totality to help development.

9432

CSO:4006/839

TRANSPORTATION

RAILWAY IMPROVEMENT PLANS LAID OUT FOR NEXT 5 YEARS

Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 12, 24 Mar 86 pp 16-17

[Article by Wang Ruozhu [3769 5387 4554]: "Improve 10,000 Li of Rail Transit Lines"]

[Text] In the next 5 years, China will build 3,500 km of railways and increase electric railways by 4,600 km and multiple-track railways by 2,900 km.

Strategic Plans for Railway Development

The Chinese government recently decided that the development of national communications and transportation should still focus on railway transportation. Not long ago, railway experts met in Beijing to study the trend of development of China's railways in the next few years and discussed plans for the next 5 years.

China's railways are concentrated in eastern areas and scattered in western areas. This is a result of Chinese history and economic development in the last century. Currently China has 52,000 km of operational railways, including 14,000 km of electric and diesel lines. In 1985 the freight volume of China's railways was supposed to reach 1.27 billion tons, passenger volume 1.11 billion people, and freight and passenger turnover 1,030 billion converted ton/km. Since China's railways did not go through a period of history in which communications and transportation industries developed by leaps and bounds as in the Western countries, the growth of railway transport capacity has always lagged behind the need of the national economy, forcing many regions and production departments to make production and marketing plans according to transport capacity, thus limiting the speed of economic development.

The experts held that in order to bring about a fundamental change in the passive situation of railway transport, by the end of this century the freight and passenger turnover of China's railways should reach 2,800 billion converted ton/km and operational railways should reach about 75,000 km including 35,000 km of electric and diesel railways which will account for half of the total rail mileage and handle over 80 percent of the total freight and passenger turnover. Large national marshalling grounds should basically

realize automation or semi-automation. All busy trunk lines should have heavy seamless steel tracks and modernized dispatch and control systems.

To reach this goal, the general strategy should be carried out in two steps: 1) Improve and transform busy trunk lines in the eastern area, vigorously transform the rolling stock industry and alleviate the shortage of railway transportation; 2) vigorously adopt new technology and equipment in the last 10 years of this century to transform railways and extend the railway network to suit the needs of economic development.

Improve and Transform 10,000 Li of Railway Lines

The experts pointed out that by the year 1990, railway freight volume will reach 1.6 billion tons, of which 650 million tons will be coal transport which affects the national economy as a whole. The volume of coal transported from Shanxi to other parts of China will amount to 210 million tons. Railway passenger volume will reach 1.4 billion people by 1990. This requires that in the next 5 years we build 3,500 km of new railway lines, of which 13 railways totaling 1,800 km will be built by joint ventures, and we must increase electric railways by 4,600 km and multiple-track railways by 2,900 km. To reach this goal, the Ministry of Railways pointed out the need to concentrate efforts on the following two areas:

A. Improve and transform 16,000 km of busy trunk lines in northeast China and along the east coast, increase comprehensive transport capacity by a wide margin, and ensure that transport needs are met basically.

Northeast China and the east coast comprise a third of China's territory, their population accounts for a half of the nation's total, and their total industrial and agricultural output value accounts for 70 percent of the national figure. They are the economic lifelines of China. Railway transport conditions in these areas have a direct bearing on China's economic growth and take off. Across the vast territory of China run 14 major railway trunk lines which form a rail network consisting of six vertical lines (Hada, Jingshen, Jinghuhang, Jingguang, North and South Tongpu, and Taiyuan-Jiaozuo-Liuzhou) and eight horizontal lines (Binsui, Jingbao and Jingqin, Shitai and Shide, Jiaoji, Longhai, Zhegan, Jiaozuo-Xinxiang, and Yanzhou-Shijiushuo and Daqin which is under construction). The total length of these 14 trunk lines account for 30 percent of China's operational railways, but their freight turnover volume accounts approximately for 70 percent. Therefore, once these 16,000 km of railways are transformed, China will be able to gain the initiative in transportation as a whole and yield maximum social results.

In the next 5 years in Northeast China and the east coast, China will lay 2,500 km of multiple-track railways, increasing the rate of multiple tracks to 70 percent, rebuild and expand 7 key marshalling grounds, build 2 new marshalling grounds at Hada Village of Harbin and Jiang Village of Guangzhou, build and expand 10 large passenger stations (at Shanghai, Tianjin, Shenyang, Xuzhou, Hankou, Shijiazhuang, Zhuzhou, Jinan, and Yongdingmen and Xizhimen of Beijing), lay nearly 10,000 km of 60-kg heavy tracks, use computers in

operations and controls, and develop a series of new technology and equipment systems such as optical fiber communications. By 1990, the 16,000 km of railways in northeast China and the east coast will look as good as new.

B. Vigorously transform the rolling stock industry, substantially increase production capacity and improve product quality, update locomotives, and enter the age of electric and diesel hauling. By the year 1990, China should be self-sufficient in rolling stock and satisfy the needs of transportation.

Judged from the current situation, the rolling stock industry is the most prominent weak link in the railway department. It has become a major element that prevents railways from making fast growth. Because of this, the amount of investment the railway department is planning to make in the next 5 years is equivalent to the total amount of investment made in the last 35 years, since the founding of the PRC. Comparing 1990 with 1985, the production capacity of electric and diesel locomotives will increase 1.5-fold, that of freight cars 70 percent and that of passenger cars 1.2-fold. By 1990, a powerful rolling stock production system with all-round development of passenger, freight, and switching locomotives, coordinated high, medium and low power levels, and compatible passenger and freight cars will begin to take shape.

In the next 5 years, the railway department will carry out the mass production of such new products as Shaoshan model No 4 electric locomotives, Dongfeng model No 8, 7, and 5 diesel locomotives, 25.5 meter passenger cars, and C61 short freight cars. In addition, it will import from the United States the manufacturing technology of major parts of diesel locomotives to improve the performance of Dongfeng model No 4 diesel locomotives; cooperate with the Likaduo [6849 0595 1122] company of England in improving the diesel engine of diesel locomotives to increase drawing power; import from the Alsthom company of France the manufacturing technology of major parts of electric locomotives to produce new-style electric locomotives; cooperate with British experts in improving the advance-type steam locomotives to increase heat efficiency; and use the World Bank's loans to transform the Zhuzhou Electric Locomotive Plant and the Changchun Passenger Car Plant. At the same time, it will also rebuild and expand nine rolling stock repair plants, build one or two new repair plants, improve repair techniques and quality, and greatly increase the production capacity of spare parts and rolling stock.

Expand Transport Capacity

In 1986, the railway department will strive to increase the weight of trains, vigorously organize combined trains with heavy loading capacity, and enable major lines such as the Fengtai-Shacheng-Datong, the Beijing-Qinhuangdao, and the Beijing-Shanghai to increase their hauling capacity to 3,700 to 4,000 tons. At the same time, it will strengthen joint transport by railways, highways, and waterways and vigorously develop modernized container transport. In 1986, the railway department will continue to increase the number of passenger trains. On 15 trunk lines, including the Beijing-Guangzhou, the Beijing-Harbin, and the Beijing-Shanghai lines, the number of express and through trains will be increased from 12 pairs to 20 and that of passenger trains from 8 pairs to 17. Beginning 1 April 1986, the two pairs of express trains running between Beijing and Shanghai will reduce their running time from the current 19 hours to less than 17 hours.

With regard to capital construction, main tasks for 1986 are to tackle the multiple tracks between Hengyang and Guangzhou in the south and the new line between Dalian and Qinhuangdao in the north, formulate policies for improving and transforming the 16,000 km of busy trunk lines, continue to carry out the construction of the two transfer port stations of Erlian and Manzhouli and the construction of the Guangshen Railway, increase import and export capacity, and speed up the construction of such port stations such as Dalian, Qingdao, and Lianyung harbor.

12302

CSO: 4006/919

TRANSPORTATION

BRIEFS

WUHAN AIRLINES OPERATIONS--Wuhan, 13 May (XINHUA)--China's fifth local airline, Wuhan Airlines, run by authorities in this capital of Hubei Province, central China, was launched yesterday. The company will run scheduled passenger flights and tourist flights, as well as air freight services for agriculture and industry in Hubei, Hunan, Guangdong and Sichuan provinces. Other local Chinese airlines are run by authorities in Shanghai, Xiamen, Heilongjiang and Kunming. [Text] [Beijing XINHUA in English 13/3 GMT 13 May 86 OW] /12858

INTERNATIONAL FLIGHTS TO URUMQI--Urumqi, 17 May (XINHUA)--Beginning as of tomorrow, planes flying the Beijing-Karachi (Pakistan) and Beijing-Addis Ababa (Ethiopia) routes will make one landing every two weeks at the Urumqi Airport on their return flights, local officials said here today. The airport is one of China's five major international airports. The other four are Beijing, Shanghai, Guangzhou and Kunming airports. [Text] [Beijing XINHUA in English 1527 GMT 17 May 86 OW] /12858

CSO: 4020/324

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

USSR URGES ENTERPRISES TO CHANGE METHODS

OW281854 Beijing XINHUA in English 1845 GMT 28 Apr 86

[Text] Moscow, 28 April (XINHUA)--The Soviet Union is switching to a large number of its industrial enterprises to new management methods, the communist party newspaper PRAVDA reported today.

The paper said bold new methods--including genuine cost accounting, self-support, self-financing and the linking of wages to production levels--are what the Soviet economy needs.

The changes are viewed here as practical steps in the wake of the Soviet Communist Party's 27th Congress, which decided the country's sluggish economy should be improved by introducing economic reforms.

In its lead story "developing a more efficient mechanism of management," PRAVDA said that "enterprises and organizations of over 100 union and republican ministries and departments are being switched to new modernized methods of management this year."

The newspaper maintained that "constantly upgrading and perfecting in every way new methods of management enables the country to reveal new reserves of the socialist planned economy and will become a powerful impetus to expediting the country's economic development."

Observers here say that many enterprises have already achieved good results by using new management methods. For example, the country's industrial output during the first quarter of this year was 6.7 percent higher than that during the same period of 1985, and labor productivity for the same period was 6.3 percent greater.

PRAVDA also criticized several departments, including central bodies, for hanging on to old methods, saying the time when every enterprise is determined to make full use of its own potentials and funds to improve production is still a long way off.

PRAVDA also stressed the need to put the most emphasis on refitting existing industrial enterprises with technologically advanced equipment.

/12232

CSO: 4020/320

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

POLISH STATE ENTERPRISE DECLARED BANKRUPT

OWO40805 Beijing XINHUA in English 0746 GMT 4 A pr 86

[Text] Warsaw, 3 April (XINHUA)--A provincial court in Katowice, Poland declared recently that a state-run enterprise, "Domgos" Metalware Factory, in Zabrze City, had gone bankrupt, local papers reported today.

This is the third state-run enterprise declared bankrupt since the "act on the improvement of work of state-run enterprises and bankruptcy" went into effect on 1 October 1983, the papers said.

Built in the mid-70s, "Domgos" is a factory specializing in making metal goods for daily use. However, despite the "not small investments" and "very advanced" equipment, the factory with 130 employees went from bad to worse in the past years. In 1984, its production declined by about 20 percent over the previous year and in 1985, there was another 5-percent drop over 1984. By the end of last year, it had contracted a debt totaling 41.7 million zloty (about 280,000 U.S. dollars).

This is not surprising, the papers said, because the plan to build this factory itself was not "realistic." The supply of materials such as steel plates and steel tubes, for instance, was not ensured from the very beginning. Meanwhile, the wages of employees kept on increasing. All this inevitably led the factory going deeper and deeper into debt, and finally brought it to court. The court, under the demand of the suitor, the minister of metallurgical and machinery industry, and in accordance with the "act on the improvement of work of state-run enterprises and bankruptcy," pronounced the factory bankrupt.

Under the act, an enterprise should, when it goes into the red, first work out a "revival plan" to improve itself. If the plan fails, responsible leading departments should conduct "commissionary management" of the enterprise by sending inspecting teams into it. If "commissionary management" still fails, legal means have to be used.

The "act on the improvement of work of state-run enterprises and bankruptcy," it is reported, has indeed helped enterprises in improving their management. By the end of 1984, there were 1108 "poorly-managed" enterprises in Poland. But by the beginning of this year, the number had been reportedly reduced to 830. Among them, about 160 are taking the "revival plan" while 32 others are under "commissionary management."

CHINESE MEDIA ON FOREIGN ECONOMIC AFFAIRS

BRIEFS

XINHUA NOTES PRAVDA ITEM--Moscow, 12 May (XINHUA)--The Soviet party daily PRAVDA today called for an active struggle against what it termed "parasitic tendencies" in the nationwide reform. In a leading article, the paper said some people, including senior officials, accept the need of reform in words but act against it. Being fond of empty talks over the reform, a matter of vital importance for the country, they try to adapt themselves to new ideas without changing anything in practice, PRAVDA added. However, the paper said, reform "is in progress, people's attitude towards work is changing, and this cannot be reversed." Emphasizing that reform, now under way in the light of the decisions of the party 27th Congress in early March, "requires purposeful actions from all and from each," the party daily underlined the need to carry out an active struggle against parasitic tendencies of whatever forms. PRAVDA has recently published letters from its readers complaining about the lack of significant changes in the work of many departments since the 27th Party Congress. [Text] [Beijing XINHUA in English 1157 GMT 12 May 86 OW] /12132

CSO: 4020/320

PUBLICATIONS

BRIEFS

FIRST NATIONAL GAZETEER--Beijing, 10 May (XINHUA)--A 31-volume "Dictionary of Geographical Names of the People's Republic of China," the nation's first standard reference book of places, will be published by the commercial press this year. Teams of experts in geography, history, linguistics and ethnology compiled the dictionary, based on a 1978 nationwide geographical survey, China's first. There are entries for 100,000 locations, each of which includes information about location, natural environment, history, economy and transportation facilities. The dictionary's first volume, covering Jiangsu Province on the east China coast, is expected later this year. Volumes on Hubei, Taiwan and Zhejiang provinces and on the city of Shanghai will be published next year. One future volume will highlight China's major locales. [Text] [Beijing XINHUA in English 1334 GMT 10 May 86 OW] /12858

CSO: 4020/324

JOINT STOCK EXCHANGE OFFICIALLY OPENS

Hong Kong CHING-CHI TAO-PAO in Chinese No 12, 31 Mar 86 pp 7-8

[Article by staff reporter Gu Wen [0657 2429]: "A New Page for Hong Kong's Stock Exchange--From Four Stock Exchanges to a Joint One"]

[Text] For Hong Kong's stock market, 2 April 1986 was a historic day. After a decade of efforts, the Hong Kong Joint Stock Exchange has finally opened officially. The four divisions of Hong Kong's stock market are now history.

The Hong Kong Joint Stock Exchange is the merger of the Hong Kong Stock Exchange, the Far East Stock Exchange, the Kam Ngam Stock Exchange and the Kowloon Stock Exchange. The merger of these four stock exchanges underwent a very long process of exploration and study. As early as the 1970's, Hong Kong authorities already had the intention to integrate the four stock exchanges but they could not reach consensus until they went through all kinds of difficulties and it was not until July 1980 that the "Bill of 1981 on the Merger of Stock Exchanges" was officially published in the SANG PO. The main objective of this bill is to stipulate the establishment of an integrated stock exchange in Hong Kong. However, because the bill touched upon the restrictions on the membership requirements, it was strongly criticized by some people from the securities field. In view of this, the Hong Kong government revised part of the content after consulting with the people from all circles, went through legislative procedures, and put the bill into effect beginning 1 January 1981.

Implement Various Change Measures

The establishment of the Hong Kong Joint Stock Exchange was not a simple process of eliminating four mountain strongholds, disbanding four stock exchanges, and making a fresh start. Instead, it was executed along with the unification of stock exchange systems, the development of computerization, and the revision of marketing and stock exchange regulations. Therefore, we may say that the opening of the joint stock exchange is in fact a change for Hong Kong's stock market.

After opening, the joint exchange will have the following innovations:

1. Markets and regulations unified. As the joint exchange starts business, Hong Kong's stock markets, which were originally scattered in four different places of Hong Kong and Kowloon, will be concentrated in the exchange square where the joint stock exchange is located whereas the administrative organs, administrative systems, membership requirements, exchange regulations, and stock prices of the stock exchange will be changed from separated and different operations to totally unified ones.

2. The auction system discarded and transaction procedures computerized. As the joint exchange starts business, the present public bidding system will become history and be replaced by a computerized exchange system which consists of nine sets of Tandem Nonstop 2 computers and 800 sets of specially-designed dual-purpose terminals. The terminals which are on-line with the computers are placed along the walls of the hall. A four-way display board is hung from the ceiling in the center of the hall showing the buying and selling situation of most active stocks. In addition, the joint exchange also has a computer specifically designed to provide exchange information for the outside.

3. Membership foundation expanded and brokers' quality improved. After the joint exchange was established, all members of the original four exchanges were admitted to the memberships of the joint exchange. It is estimated that when the joint exchange begins operations, over 670 out of the original 960 members will continue to do business. The biggest change is that according to the new rules of the stock exchange, membership is no longer limited to individuals. It is expanded to include individuals and companies. Under the new rules, bank brokers, brokers linked to banks, and foreign securities dealers are all allowed to become members of the stock exchange. At the same time, the securities supervision and control department and the stock exchange have drawn up stricter standards for membership examination and approval, including one that requires brokers to have 3 years of experience in the securities field or pass an examination to obtain the credentials approved by the stock exchange.

4. The supervision and control of marketing companies increased and plans to relax restrictions on marketing requirements. According to the securities regulations of 1986 (for securities to be marketed at the stock exchange) which were officially put into effect on 1 February, the securities supervision and control department has been vested with greater powers, including ones to call for the suspension of a company's buying and selling and disqualify marketing companies. In addition, the new regulations also stipulate that marketing companies disclose more detailed information such as financial situation and major transactions. While strengthening supervision and control, the stock exchange also plans to relax restrictions on marketing conditions later. One of its plans is to do away with the restriction that companies offering to list their stocks with the exchange should be in business for 5 years and the restriction on the amount of dividends. Another one is to establish the second market and attract foreign companies to list their stocks in Hong Kong.

5. The compensation system improved and compensation ability increased. The joint stock exchange stipulates that every member must pay 50,000 yuan in cash to be used as the compensation fund. According to another plan, every member should pay another 500,000 yuan of security deposit to meet the needs of brokerage firms for compensation.

Accelerate the Development of Stock Market

Since the merger of four exchanges into one was executed along with various changes, the opening of the joint exchange will not be merely a formality. Judged from the current situation, it apparently is a force that will give further impetus to the development of Hong Kong's stock market whereas its main role is to increase the degree of internationalization of Hong Kong's stock market and improve its financing and investment functions.

Hong Kong is known as the third biggest financial center of the world. Judged from the number of banking institutions, the volume of international banking operations, gold transactions, and fund control, Hong Kong deserves this title. However, Hong Kong's stock market lags far behind other international financial centers. Among the original four stock exchanges, only the Hong Kong Stock Exchange joined the International Stock Market Association and only as an affiliated member. Although Hong Kong's stock market has been operating for over 90 years, Hong Kong's listed stocks are still not considered as negotiable securities in Europe. One of the reason for such a phenomenon is the disunity of stock exchanges and the outdatedness of the exchange system. Now that the four exchanges have been merged into one and the exchange system improved, the joint exchange has more favorable conditions for joining the international circle of stock exchanges. We may assume that in the near future, the joint stock exchange will be accepted by the International Stock Market Association as a formal member. If the plan to attract foreign companies to list their stocks in Hong Kong is realized, Hong Kong's stock market and stocks will be better known internationally and have a higher reputation.

The most important function of the stock market is to provide, on the one hand, financing opportunities for industrial and commercial enterprises to expand business and, on the other hand, investment instruments for investors. These two functions supplement each other. We should affirm that Hong Kong's stock market does have some functions but there is much to be desired. For instance, the number and amount of new issues of stocks listed in the past few years have been obviously reduced compared to the past. For another instance, although the indexes of stock market have repeatedly increased in the past 2 years, the volume of transactions has not been significant. For still another instance, although Hong Kong is the fund management center of Asian and Pacific areas, none of the funds under the management of Hong Kong considers Hong Kong as the main target of investment. The main cause for this situation is that investors do not quite trust investment in Hong Kong's stock market. The main problems are overly relaxed supervision and control of marketing companies, limited disclosure of information on marketing companies, common insider trades in the stock market which are likely to cause investors to be ripped off or even lose their principal and uneven qualifications of stock brokers. Judged from the situation as a whole, there are such problems as

insufficient strength and limited relations. Now we may say that after this change, all of the abovementioned problems can be at least alleviated. Since measures to strengthen the supervision and control of marketing companies, improve the quality of stock brokers, and improve the compensation system will play an role in perfecting Hong Kong's stock market as a whole and ensuring the interests of investors, it is certain that they will also make Hong Kong's stock market more appealing to investors. The admission of bank brokers and foreign securities firms to the membership of the joint stock exchange actually adds to Hong Kong's stock market a brokerage force of a great scale or with a huge network of clients. This, however, will increase pressure on original brokers but will facilitate the stock investment of local investors and absorb more foreign capital into Hong Kong's stock market. As more capital is invested in the stock market, the financing function of the stock market will of course be increased.

12302

CSO: 4006/909

SMALL, MEDIUM-SIZE BANKS FORCED TO MAKE CHANGES

Hong Kong TA KUNG PAO in Chinese 29 Mar 86 p 4

[Article by reporter Lei Jingbin [7191 0352 2430]: "Small and Medium-size Banks Are Forced To Make Changes"]

[Text] The repercussions of Hong Kong banking unrest brought about by the Hong Kong government's takeover of the Hang Lung Bank in September 1983 in an emergency move are still being felt. On Thursday, the banking commissioner asked Jardine Fleming to take over the operations of the Union Bank. The Hong Kong government has now used the foreign exchange fund successively on four occasions to rescue banks in different kinds of trouble. Consequently as many as five banks are either directly and indirectly supported by the Hong Kong Government.

Two Diametrically Different Problems

In spite of the fact that these incidents that rocked Hong Kong's financial world occurred one after the other in less than 3 years, the incidents involving Hang Lung Bank, the Overseas Trust Bank, and the Hong Kong Industrial and Commercial Bank, on the one hand, and the Ka Wah Bank and the Union Bank, on the other hand, recently reflected two diametrically different problems in Hong Kong's banking circles.

An analysis of the crises involving the Hang Lung Bank and the Overseas Trust Bank shows that there are three contributing factors: 1) The sudden changes and sharp deterioration of the political and economic situation in Hong Kong; 2) poor internal management and operations; 3) involvement in certain criminal acts in business. With regard to the incidents that involved the Ka Wah Bank and the Union Bank recently, even though these two banks may appear to have management and operational troubles, it was neither sudden economic changes nor unlawful acts that brought troubles on them.

It is undeniable that the raging tides in real estate business from 1978 to 1981, the test of confidence and the real estate slump between 1982 and 1984, and the fierce competition within banking circles have an impact on every bank in Hong Kong today and only the degree of impact varied in different places. As to whether or not the reserves of bank assets are sufficient to cope with such an impact, considering that both large, medium, and small banks

have bad debts, the degree of the impact being felt by large banks is relatively insignificant because of their solid strength and greater assimilating capacity, on the other hand, the degree of the impact being felt by the medium and small banks is much greater and the period of assimilation longer due to their scale.

Differences Between Large Banks and Medium and Small Banks

It is a pity that before the medium and small banks could completely free themselves from the impact that lasted from 1982 to 1984, the Hang Lung Bank and the Overseas Trust Bank incidents surfaced one after another. The depositors, in general wary of the medium and small banks, have been unwittingly transferring their deposits from medium and small banks to large banks. People in banking circles called this kind of slow slipping away of deposits and "intangible run on bank deposits." Although in practice it is vastly different from a run on a bank like a swarm of bees that closes down a bank instantaneously, it does produce the same result of depleting large amounts of bank deposits and creating a shortage in circulating funds.

Moreover, the medium and small banks are also plagued with some perennial problems, such as high cost in handling deposits and their limited ability to provide credit for customers. The so-called high cost for handling deposits means that the medium and small banks often have to negotiate short-term loans on a daily interest rate with their counterparts in order to cope with the withdrawing of cash by their customers, thus making the cost of handling deposits higher than the large banks. The medium and small banks, on the other hand, limited by their small scale naturally cannot meet the demands of big customers nor can they participate in any way in the enormous loans involving banking groups.

Suggestions for Rescuing the Banking Business

Many advocates have come up with numerous measures for rescuing the banking business in Hong Kong in the light of prevailing problems: 1) Setting up a deposits insurance system; 2) forming a contingency banking group by large banks; 3) establishing a discount window. The above-mentioned measures actually can only help medium and small banks experiencing difficulties in short-term turnover. For example, when the Ka Wah was threatened by rumors last year, the Bank of China formed a contingency banking group in conjunction with the Hong Kong and Shanghai Banking Corp. and openly declared that the Ka Wah Bank would be amply covered by a contingency loan. However, such an interim contingency measure failed to basically extricate the Ka Wah Bank from its predicament.

Other people have also made suggestions that the medium and small banks should go into operations to confront the large banks. However, there are only two forms of joint operations: 1. Those of a technical nature, such as the services being provided by the automatic deposit withdrawing machine. But this type of technical joint operations does not help solve the problems the medium and small banks now face other than giving them a better image. 2. The other is a genuine joint operation by supporting each other in

circulating funds when needed. Theoretically speaking, this type of joint operation is very simple, but in actual practice, it is a complicated matter dealing with banking secrets, personnel management, and so forth. So unless banks are under the control of the same group, a genuine joint operation is impossible.

The term "bank mergers" coined by people in banking circles means that the medium and small banks are being taken over by large banks or they are forced to seek strong and powerful partners. This has become a most common trend in bailing out medium and small banks in trouble today. A case in point for example, is that the Hang Seng Bank became a shareholder of Wing On Bank, Chma Trust and Investment Corporation, injected capital into the Ka Wah Bank, and the Union Bank which ran into trouble recently also hoped to find a partner. Under these circumstances, few medium and small banks in Hong Kong today are still fully independent!

The Issue of Medium and Small Banks Being Merged

In the foreseeable future the reorganization of the independent medium and small banks remaining in Hong Kong will be accelerated and that it is a general trend that they will be taken over by large banks or drawn into partnership with powerful foreign capital interests. As a matter of fact, so long as the change is developed normally and healthily, it will not adversely affect Hong Kong's role as a financial center.

With the medium and small banks completely "rejoining" the ranks, the unrest in Hong Kong banking circles since September 1983 should come to an end. By then perhaps only a few large local banks and a certain number of foreign-capital banks will remain in Hong Kong banking business. The foreign-capital banks in Hong Kong have not been too keen about serving local banks all along, in other words, the local banking services in the future may be monopolized mainly by a handful of local banks.

As competition diminishes, it is quite likely that the efficiency of banking services may drop and bank customers may be charged for services rendered. It remains to be seen whether or not fees charged gradually by the banks to customers for certain services rendered represent the trend of development of the above-mentioned situations.

12662/12955

CSO: 4006/896

GOVERNMENT TAKES ACTION TO SAVE TROUBLED BANKS

Hong Kong MING PAO in Chinese 2 Apr 86 p 2

[Article: "Financial Secretary Explains: Using Surplus Foreign Exchange Fund To Save Banks in Trouble Is To Preserve the Confidence of Hong Kong and Foreign Depositors"]

[Text] The Financial Secretary Sir John Bremridge explained his action of using foreign exchange fund to save banks in trouble. He indicated that the concern of the Hong Kong government is to make Hong Kong become a place where Hong Kong and foreign depositors feel at ease with their investment.

He said: The regulations for foreign exchange funds give the department of finance some power that can be exercised in due time. The regulations of banking institutions also give bank supervisors and managers some power that can be exercised immediately. Therefore, had we sat by and watched banks closing down and ignored the resulting runs on many other banks, we should have been blamed. The exercise of relevant powers should not wait for the debate of the legislative bureau, which should focus on preventing problems.

The foreign exchange fund has been used on many occasions in the past to support banks in trouble. The actual amount of funds used was within the limit of increases in the balance of the fund.

The financial secretary explained that he had not planned to answer questions on banking operations and the foreign exchange fund until next week when the meeting of the legislative bureau begins the debate on the budget bill, but because of the comments of various reports during the Easter holiday he had to expound on the issue to clear away confusion.

Power Must Be Exercised Immediately Without Open Debate and the Legislative Bureau Should Focus on Preventing Problems

1. Adopting basic policies with minimum risks to protect the economy.

As the financial secretary I have confronted many problems in the banking field since the end of 1982 and the government has solved all of them in the most appropriate manner. Hong Kong's trade, industry, and employment depend on the stability of Hong Kong and its financial system. The consistent basic

policy of the Hong Kong government is to maintain the stability of the two. When solving each problem, we pay special attention to adopting the policy of minimum risks. Our main goal is to protect the deposits of Hong Kong citizens and the faith of Hong Kong and international bankers in Hong Kong's banking system. We need to put out the fire when the fire alarm goes off, and we should adopt the most appropriate measure to put out the fire at the minimum cost before the fire spreads. Our greatest concern is not the area of shareholders and management but how to make Hong Kong a place where Hong Kong and international depositors feel at ease with their investment--no matter how much they have on deposit.

2. Adopting immediate action needs power that can be exercised immediately.

Because of this, the financial secretary and bank supervisors and managers must have the power they need. If an immediate action is required, relevant authorities must be able to exercise such powers immediately. This is why the financial secretary can exercise the power endowed by the regulations of the foreign exchange fund as he sees fit. By the same token, the regulations of banking operations also give bank supervisors and managers power that can be exercised immediately. Because every international center abides by the security principle of banks and because stocks are sensitive to information, it is impossible to carry out open debate. Such power should not wait for a debate on policies in order to be exercised. If the financial secretary and bank supervisors and managers thought they had no such power or were afraid of exercising their power and sat by and watched banks closing down and ignored the resulting runs on many banks, they should be blamed.

The Hong Kong Government Seems To Play the Role of a Central Bank

3. Preventing the rise of problems.

Our concern is what really happened, not theoretical possibilities. The debate should not involve the power to deal with fire alarms, but the prevention of fire alarms. The draft of the new rules and regulations for the banking business was drawn up after considering these problems.

4. The question of whether there is enough money in the foreign exchange fund.

If there is any confusion resulting from suspicion about the amount of the foreign exchange fund, let me clarify the situation. Surplus foreign exchange funds--I emphasize the word surplus--is Hong Kong's internal reserve fund. Although Hong Kong is loaded with problems, the growth rate of surplus foreign exchange funds has been very satisfactory in the past few years and it will continue to be so in the future. The action we took to support some banks prevents, under the major premise of maintaining stability, the foreign exchange fund from being spent in a more direct way at an even higher cost. Even if the fund were used to maintain the stability of banking institutions or pay off all debts for them--the chance of this is next to nothing--the expenditure of the foreign exchange fund will be much lower (repeat: lower) than the increase of surplus (repeat: surplus) fund in the past 4 years. In other words, the actual amount needed to support these banks is within the limit of the growth of the surplus foreign exchange fund. The adoption of

such an action may prevent the possible serious loss of the fund and, more importantly, social and economic confusion and trouble. The confidence of foreign countries in Hong Kong is the clear evidence of the success of this policy. Some international banks are still waiting in line to get into the Hong Kong market whereas one of the reason for such confidence is that all international bankers deeply believe that the Hong Kong government would act like the central bank of any other industrialized society and handle the problem as soon as it arises.

12302

CSO: 4006/909

END

END OF

FICHE

DATE FILMED

6-24-86
